Aalto University
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IS IT TRANSFORMATIVE OR NOT?
THE CHARACTERISTICS OF PRIVATE EQUITY INVESTORS' ACQUISITION PLANNING

Master's Thesis
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Abstract

The acquisitions by private equity backed companies are increasingly popular, in both practice and academic research. The academic literature on the topic is emerging in the field of finance, focusing on topics such as probability of acquisitions and the acquisitions' effects on performance by using quantitative methods. However, the current research lacks understanding on how the private equity investors use the acquisitions in their investment from a qualitative perspective.

This study answers this call by studying how the private equity investors plan the overall acquisition behavior of their portfolio firms to understand how the potentially high numbers of acquisitions are managed. In order to do that, the literature on private equity is combined with literature on planning of mergers and acquisitions.

The study is a qualitative multiple case study of five portfolio firms, which are or have been invested in by a private equity fund. The data is collected through open interviews with the private equity investors of the case firms. Additional data is collected from public sources and databases.

The results show that the private equity investors are mainly strategic in their planning of the acquisition behavior of the portfolio firms. The level of involvement of the private equity investor varies from hands-on work to overseeing role, depending on the acquisition experience of the portfolio firm. Interestingly, the private equity investors did not consider all of the acquisitions of same importance, but the division between transformative and non-transformative acquisitions was clear. The role adopted by the private equity investor also depends on this categorization: in transformative acquisitions, the private equity investors were active and highly involved. The non-transformative acquisitions were often left to the portfolio firms to manage.

Keywords private equity, mergers, acquisitions, planning, roles

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Tiivistelmä

Pääomasijoittajien kohdeyritysten yritysostot ovat kasvavassa määrin suosittuja niin käytännössä kuin akateemisessa tutkimuksessakin. Aikaisempi tutkimus on pääasiassa tehty rahoituksen alalla. Tutkimukset ovat keskittyneet tutkien muun muassa yritysostojen todennäköisyyksiä ja niiden vaikutuksia kohdeyrityksestä saatavaan tulokseen, käyttäen pääasiassa määrällisen tutkimuksen keinoja. Tutkimuksesta nykyisellään kuitenkin puuttuu ymmärrys siitä, miten pääomasijoittajat käyttävät yritysostoja kohdeyrityksissään laadullisesta näkökulmasta.

Tämä tutkimus osallistuu tähän keskusteluun tutkimalla, miten pääomasijoittajat suunnittelevat yritysostot kokonaisuutena kohdeyrityksissään ja miten potentiaalisesti korkeat yritysostomäärät johdetaan. Aiheen ymmärtämiseksi tutkimuksen teoreettinen kehys muodostuu pääomasijoittamiseen liittyvän kirjallisuuden lisäksi yritysostojen suunnitteluun liittyvästä kirjallisuudesta.

Tutkimus toteutetaan monitapaustutkimuksena, jossa viisi eri tapausta edustaa viittä eri kohdeyritystä, joihin pääomasijoittaja on sijoittanut tai sijoittaa edelleen. Tutkimuksen aineisto on kerätty avoimin haastatteluin, jossa haastateltavina ovat kyseisten kohdeyritysten pääomasijoittajat. Aineistoa on täydennetty myös julkisesti saatavista lähteistä ja tietokannoista.

Tutkimustuloksista näkyy, että pääomasijoittajat ovat pääasiassa strategisia yritysostojen suunnittelijoita. Pääomasijoittajien osallistuminen yritysostoihin vaihtelee käytännön työstä valvovaan rooliin riippuen siitä, kuinka kokenut kohdeyritys on yritysostojen tekemisessä. Pääomasijoittajat eivät myöskään pitäneet kaikki yritysostoja samanarvoisina, vaan jako uudistavien ja vähemmän uudistavien yritysostojen välillä oli selkeä. Pääomasijoittajien rooli myös vaihteli riippuen tästä jaottelusta: uudistavissa yritysostoissa pääomasijoittajat olivat aktiivisesti mukana käytännön työssä, kun taas vähemmän uudistavien yritysostojen toteuttaminen jäi usein kohdeyritykselle.

Avainsanat pääomasijoittaja, yritysotot, suunnittelu, roolit

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1 Introduction

1.1 Background

Since its emergence as an important phenomenon in the 1980's (Kaplan & Strömberg, 2009), private equity and private equity firms have become significant participants in the market for corporate control (Wruck, 2008). Well-known firms such as the Danish facility services company ISS, the American pet supply company Petco, and the Finnish textile-maker Finlayson & Co have had private equity backing during their journeys. Moreover, there are numerous other ones: private equity firms completed, according to a study by Kaplan and Strömberg (2009), approximately 17 700 buyout transactions in total between January 1970 and June 2007. Private equity is also affected by boom and bust cycles (Wruck, 2008), and the figures presented by Kaplan & Strömberg do not show the effects of economic distress observed from 2007 onwards (Wruck, 2008).

Despite the effects of the latest bust cycle, private equity firms are prominent players in the Finnish economy. According to Pääomasijoittajat - Finnish Venture Capital Association (2018), 56% of the new companies listed in the Nasdaq Helsinki between 2015 and 2017 had private equity backing (buyout or venture capital), either at the time of the IPO or at an earlier stage. This shows that, even though sometimes the private equity investors tend to operate "behind the scenes" and out of the view of the end customers of their portfolio firms, they affect a significant amount of companies. The presence of the private equity makes it an interesting area for research.

Private equity firms are reported to generate substantial returns; outperforming public markets such as S&P500 (see e.g. Harris et al., 2014). The performance of private equity is often contributed to the active style of investing the private equity investors tend to adopt in their investments, i.e. in their portfolio firms (see e.g. Wood

& Wright, 2009, Metrick & Yasuda, 2011). The active participation allows for the use of different value creation drivers, which increasingly also include the use of mergers and acquisitions as an instrument to grow the portfolio firms (Birgl et al. 2016).

The success of mergers and acquisitions in general is quite low. Depending on the source, researchers offer a failure rates between 70% and 90% (Christensen et al., 2011). The large failure rates are contributed to, for example, the complexity of acquisitions (see e.g. Gomes et al., 2013). Considering the difficulties with acquisitions, the private equity firms' ability to generate significant returns with the generally poor success rate of mergers and acquisitions creates an interesting paradox. Do the private equity firms generate the results despite the failing acquisitions? Or, are they able to evade the failures and somehow execute more of the successful acquisitions? If the acquisitions performed by the private equity backed companies were to fail in approximately 80% of the cases, would not the private equity firms avoid them instead of actively using them? How do private equity firms influence their portfolio firms' mergers and acquisitions? By examining the portfolio firms' M&A activity, and the ways the private equity investors plan it, it is possible to better understand how the mergers and acquisitions are used in the context of private equity.

To answer this call, this thesis explores the private equity investors' influence on the portfolio firms' acquisitions, from the perspective of planning. This is done by applying the qualitative methodology of a case study, where five portfolio firms are chosen as the cases and thus form the basis of this multiple case study. Their respective private equity investors were interviewed to understand how they see the use acquisitions in their portfolio firms. As a result, the thesis presents an overview and discussion of the characteristics of private equity investors' acquisition planning, as well as of the roles they adopt in the acquisition planning and execution.

1.2 Research Gap and Research Questions

Although the use of mergers and acquisitions in the portfolio firms has gained its foothold in the practice of private equity firms, the academic literature on the topic is still budding (see e.g. Morkötter & Wetzer, 2015, and Hammer et al., 2016). It is finding its way to the mainstream finance literature through the first published articles and working papers, in addition to more practice-oriented reports co-authored with corporate partners. The number of researchers and authors on the topic is still quite limited, and the main contributions arise from a handful of authors who are mainly Germany-based, such as Benjamin Hammer and Heiko Hinrichs. In these papers, the focus has been mainly to understand the likelihood and the performance implications of the acquisitions made by the portfolio firms, from a finance-oriented viewpoint. Understanding on how the acquisitions are managed, however, is still widely missing from this emerging research field. There is little research available on, for example, what motivates the acquisitions or how the acquisitions are managed or planned from the perspective of the private equity investor. The research shows that private equity investors tend to use many acquisitions (see e.g. Hammer et al., 2016, Brigl et al.,2016), but the research does not answer how these acquisitions are executed in practice.

Considering that the topic of acquisitions made by the portfolio firms is still new in the field of finance, in the academic strategy and management literature the topic is still widely ignored. The strategy and management literature is, however, rich with topics relating to mergers and acquisitions, with a great spectrum of areas varying from, for example, learning from acquisitions to integration management. The field also holds research related to private equity, for example on topics such as the strategic benefits of private equity (see e.g. Folta & Janney, 2004). However, even in the management and strategy literature these two areas have not been widely studied together.

Combining the two, private equity and management, disciplines of academic research allows for a more holistic understanding on the topic of private equity portfolio firms and mergers and acquisitions. In addition to the finance-oriented quantitative studies, the perspective of strategy and management could bring insight into, for example, how these acquisitions are managed, what motivates the acquisitions, and what is the role of private equity firms compared to the portfolio firms. Doing this kind of research would potentially also offer a variety of new directions for the future studies, helping the field grow. If the field is not refreshed with management-oriented research, it runs the risk of becoming a narrow one where the financial determinants are the basis for the findings.

In addition to the potentially impactful benefits to the academic fields, there are benefits to the practitioners as well. By better understanding the acquisitions performed by the private equity portfolio firms, from the perspective of acquisition management, research can possibly give insight to the managers of those companies that are seeking or planning to seek private equity backing. When assessing their options, they would benefit from better understanding on the ways the private equity firms operate, and how they handle mergers and acquisitions.

As illustrated above, the current academic knowledge on the ways private equity investors influence and manage the acquisition decisions and the acquisition execution is still quite limited. That notion forms the basis of this study. The goal of this study is to understand how the private equity investors plan the acquisition activity of their portfolio firms for the whole investment period. From that, the research question is formulated in the following way:

How do the private equity investors plan the overall acquisition behavior of their portfolio firms?

The aim is to understand the characteristics of acquisition planning in the portfolio firms, especially from the perspective of the private equity investor. The theoretical basis for this research question arises from the literature related to M&A process, with a focus especially on the pre-combination phase of the process, i.e. the M&A planning. Although looking at the whole process could be beneficial, for the purposes of this thesis the scope is narrowed down to planning. Private equity firms are, after all, owners in the businesses they invest in, instead of, for example, being managers of the firms or outside consultants. Thus, taking into consideration the general role of an owner, it seems appropriate to assume that for the most part, the influence is stronger in the beginning where, for example, the strategic direction and goals play a bigger part and the work is not solely hands-on. To understand the uniqueness of the private equity model in this respective, the M&A literature is combined with literature on private equity, including the overall characteristics and goals of private equity investors. This also includes the ways private equity investors are active in their investments and the different forms of governance that they bring to the portfolio firms. With the help of the two streams of literature, the empirical data is analyzed to shed light into what kind of planners the private equity investors are and what kinds of roles they may hold during the process.

The empirical part is conducted as a qualitative multiple case study. The cases represent different portfolio firms that have recently been exited or are currently invested in by a private equity firm. The data are collected through loosely structured interviews, held during spring, summer, and fall 2018. The interviewees consist of private equity investors for the cases. The collected data is analyses first as a within-case analysis and then as cross-case analysis.

The thesis is structured in the following way. After the introduction begins the literature review. It is divided into two separate chapters: private equity and mergers and acquisitions. Chapter 2 focuses on the private equity side: first the characteristics of private equity are considered, followed with a review of the current understanding on the use of acquisitions in the private equity setting. This chapter sets the scene for the study, helping to grasp the uniqueness of the context in private equity. The second chapter of literature review (Chapter 3) is dedicated to literature on M&A planning, introducing more strategy and management-oriented research to complement the private equity literature. This part of the literature review sheds light on the different types of planning and their characteristics to help describe the M&A planning later on in the findings. The two literature review chapters are followed by a short chapter on the theoretical framework in Chapter 4. This framework synthesizes the two chapters on relevant literature and offers assumptions based on the previous research. These assumptions form the structure for the analysis of the empirical findings and discussion.

Research design and methodology are presented in Chapter 5. Here the specifics of the conducted study are described, including justification, sampling decisions, data collection, analysis methods, and evaluation of the chosen method. The chapter describes empirical part of the thesis to aid in understanding the following chapters: the empirical findings in Chapter 6 and the discussion in Chapter 7. Chapter 6 starts with within case analysis of the cases used in the study, followed by the cross-case analysis. The findings of the cross-case analysis are structured according to the theoretical framework. In the discussion in Chapter 7, the findings of the study are brought together with the perspectives of the literature review to explore the contributions of the study. The last chapter (Chapter 8) holds the conclusions, it brings the study together to answer the above described research question, as well as discusses the implications of the study. In addition, the conclusions chapter offer areas for future research and visits the limitations of this study.

1.3 Definitions of the Key Terms

There are two key terms used across the thesis. Their definitions are the following:

Private Equity is used as a synonym for buyouts, thus focusing on more mature firms where the private equity funds acquire a controlling majority, leaving out early-stage venture capital. This seems to be the convention that majority authors accept in the literature on private equity, including those authors who write about the acquisitions performed by private equity backed portfolio firms. (More detailed description of what private equity is and how it works in Chapter 2)

Mergers and acquisitions (M&A) is used as an overall term for the two types of activity where the ownership of a company is transferred to another company, without specific distinction between the two. This because, in this thesis, it is not as important to pinpoint where the target company ends up in the acquiring company, but to understand what preceded the decision to engage in buying existing companies. In addition, the term acquisition is also used as a synonym for mergers and acquisitions. (More detailed description of mergers and acquisitions in Chapter 3)

2 Private Equity

This chapter is the first chapter out of the two chapters in the literature review. Together they form the theoretical backbone of this thesis. This chapter will focus on private equity, exploring it to guide in understanding the uniqueness of private equity. Firstly, the general idea and characteristics of private equity are discussed; how private equity firms operate, what do they do, and what makes them different compared to other investment forms. In the second section, the focus shifts to value creation and the role of acquisitions in private equity to understand the ways private equity investors shape their portfolio firms.

Private equity as a term can be seen to consist of one or several aspects, depending on the author. For some, private equity is an umbrella term that broadly includes the investments in unquoted companies, no matter what stage the company is in (see e.g. Wood & Wright, 2009). In this definition, private equity includes venture capital that invests in early-stage firms (e.g. start-ups), where the investments do not typically gain a majority control (see e.g. Metrick & Yasuda, 2011, Kaplan & Strömberg, 2009). In addition, according to this view, private equity is seen to include buyout transactions, which invest in mature or existing firms and tend to obtain a majority control (Kaplan & Strömberg, 2009). The term private equity can also include other investment types, such as mezzanine and distress investments (Metrick & Yasuda, 2011). However, according to an alternative definition, private equity can be seen to include only buyouts, thus those firms that engage in buyouts are referred to as private equity firms (see e.g. Moon, 2006, Kaplan & Strömberg, 2009). For the purposes of this study, the thesis adapts the Kaplan and Strömberg's (2009) terminology where private equity is used as a synonym for buyouts, thus focusing on more mature firms with controlling majority, leaving out early-stage venture capital.

2.1 Characteristics of Private Equity

Private equity firms raise their funds from institutional investors, such as pension funds and endowments (Metrick & Yasuda, 2011), and wealthy individuals (Barber & Goold, 2007). The financial values of the private equity funds are not marked to market, and the returns from the funds are not realized until the fund is at the end of its lifetime, which is usually after approximately ten years (Metrick & Yasuda, 2011). The raised funds are invested in buying and selling companies, i.e. the portfolio firms (Barber & Goold, 2007). Private equity funds differ from other forms of investment, such as mutual funds and hedge funds, in that they invest in private, illiquid companies of which there is often scarcely information available (Metrick & Yasuda, 2011).

Private equity funds also differ from corporations and strategic investments made by corporations as private equity funds are required to return the invested money back to the investors after the set time period (Metrick & Yasuda, 2011). The private equity firms' practice of buying companies only to sell them after a fairly short time and intense improvement is quite different from the practice of corporations who tend to buy companies to hold them (Barber & Goold, 2007). The companies acquired by private equity funds are not typically integrated anywhere nor they are not exactly synergistic to the private equity firms although they can create benefits to the other portfolio firms held by the private equity firm (Barber & Goold, 2007). Corporations, however, tend to be more strategic acquirers who integrate the acquired companies to realize benefits from them (Barber & Goold, 2017).

In addition to acquiring private companies, private equity firms may also acquire divisions of larger groups (Castellaneta & Gottschalg, 2016). In some cases, private equity firms take public companies private; delisting them, but even then the company is not typically public during the investment period (Metrick & Yasuda, 2011, Castellaneta & Gottschalg, 2016). The investment period of the portfolio firms seems to be, on average, somewhere between four years (Lopez-de-Silanes et al., 2015) and six years (Mäkiaho & Torstila, 2017). There is a pressure on the private equity investors to find portfolio firms that have clear paths to exits (Metrick & Yasuda, 2011) as the investment period usually cannot be longer than the fund's lifetime (approx. 10 years). In addition to the requirement of an exit, private equity investors also tend to focus on financial returns (Metrick & Yasuda, 2011). According to Gompers and colleagues (2016), the main drivers of financial returns, as reported by the private equity investors themselves, are the growth of the value of the business, the improvement of operations in the company, and leverage.

The pursuit for returns is founded on active participation in the portfolio firms. Private equity investors can be active in different ways: for example, private equity investors seek representation in the boards of their portfolio firms, through which they can influence the actions taken by the firm (Barber & Goold, 2007). Other means for influence are restrictions on the management's behavior (e.g. reporting requirements) (Wood & Wright, 2009), veto rights, and contingent control rights (Metrick & Yasuda, 2011). All of these can mean radical changes to the governance of the firm (Wood & Wright, 2009). In addition to these control levers, the private equity investors can contribute missing or complementary skills to the portfolio firms and their management teams (Moon, 2006). Although being active, traditionally the private equity investors offer advice and stay close to the management but tend to keep away from the day-to-day activities (Barber & Goold, 2007).

There are generally three ways a private equity firm can exit a portfolio firm: through a sale of the company to an industrial or strategic buyer (i.e. acquisition by a company), through a sale to another private equity fund (i.e. secondary buyout), and through an IPO of the company where the shares held by the private equity firm can subsequently be sold in the public market (Metrick & Yasuda, 2011). In their longitudinal study spanning the years from 1970 to 2007, Kaplan and Strömberg (2009) tracked the popularity of the different exit options. Globally compared, the most popular channel for exit during that period was the sale to a strategic buyer (38%), the second most popular exit was secondary buyout by another private equity firm (24%), and the third was an IPO (14 %). Compared to a similar statistic by Pääomasijoittajat - Finnish Venture Capital Association (2018), in Finland in 2017, IPO (and sale of quoted shares) was by far the most popular exit in Finland (over 40%), while a sale to a strategic buyer and a secondary buyout were smaller, but equally popular. It is worth mentioning that these three, although the most popular, are not the only ways to exit a portfolio firm. Other ways include a sale to the management, a sale to a LBO-backed firm, and a bankruptcy (Kaplan & Strömberg, 2009).

2.2 Value Creation in Private Equity

There is a need for diverse means of value creation for private equity firms, as merely buying portfolio firms to hold them is no longer a viable value creation source (Morkötter & Wetzer, 2016). This is visible in the responses given by the private equity investors in a study by Gompers and colleagues (2016): the ability to create value was the third most important factor in choosing a portfolio firm, after the business model or competitive position, and the management team. The ways to create value in private equity are divided into three categories by Achleitner and Figge (2014): 1. Operational performance improvements, 2. Leverage effect, and 3. Pricing. The chosen mix of these value creation drivers depends on the portfolio company itself, but also on the private equity firm as different equity firms tend to emphasize different value drivers (Gompers et al., 2016).

Out of these three drivers of value creation, operational performance improvements is a key driver (see e.g. Guo et al., 2011). According to a study by Achleitner and colleagues (2010) operational and market effects are the largest source of value creation, contributing to two thirds of created value. Operational performance improvements consist of two aspects: of increasing the cash flow of the company as well as of streamlining the capital structure (Achleitner & Figge, 2014). The top-line growth can be achieved with, for example, geographical expansion, development of new products and services, improved sales force effectiveness, or enhanced price realization (Birgl et al., 2012). On the other hand, costs can be cut by reducing the cost related to operating, and by decreasing the selling, administrative, and general expenses (Birgl et al., 2012). A study by Gompers and colleagues (2016) suggests that out of the two, the growth is more important to the private equity investors than the reduction of costs.

Private equity investors can grow their portfolio firms through organic growth, which includes the operational performance improvements described above, as well as through inorganic growth, which is facilitated through add-on acquisitions (Morkötter & Wetzer, 2016). In fact, the use of M&A has become a highly relevant way to improve operations in private equity portfolio firms (see e.g. Hammer et al, 2017, Brigl et al., 2016 and 2012). A study by Hammer and colleagues (2016) show that the involvement of private equity firms increases the probability of M&A activity to double and private equity investors tend to prefer quantity over complexity in the acquisitions. In addition, a study by Brigl and colleagues (2016) reports that the amount of private equity portfolio firms that included add-on acquisitions rose from 20% to 53% during the period of 2000 - 2012. The popularity seems understandable, considering the study results by Brigl and colleagues (2016): the private equity deals, where add-on acquisitions are present, generated an average IRR (i.e. internal rate of return) of 31,6%. The standalone private equity deals without add-on acquisitions generated an average IRR of 23,1% in the study.

Morkötter and Wetzer (2016) define add-on acquisitions as transactions that "*occur when a private equity portfolio company acquires – with the explicit financial and managerial backing of the underlying private equity fund – another company to fuel further growth or to boost operational excellence*" (pp. 1-2). Private equity investors can either accompany the portfolio firm in the acquisition process, or execute it directly

(Morkötter & Wetzer, 2016). Importantly, the incentives of the private equity firms and the portfolio firms need to be aligned for the execution of only value-adding transactions (Moon, 2006). Some researchers identify buy-and-build strategies as distinctive concept related to, but separate from, the add-on acquisitions, whereas to some researches the buy-and-build strategies equals to using acquisitions in general (see e.g. Morkötter & Wetzer, 2016, and Hammer et al., 2017). The typical definition seems to be that in buy-and-build cases a platform (i.e. the portfolio firm) is acquired, and then used to facilitate numerous add-on acquisitions (Morkötter & Wetzer, 2016).

The timing of add-on investments is closely tied to the fact that the investment period is limited and fairly short. The add-on acquisitions are typically performed in the first one to three years of the investment period (Morkötter & Wetzer, 2016), and the rest of the investment period is spent integrating them (Hammer et al., 2016). The findings by Hammer and colleagues (2017) suggest that speed in the add-on acquisition execution is important to the private equity firms, as the use of add-ons require time-consuming processes (e.g. integration) and thus the late use of them may delay the exit from the portfolio firm. This is supported by the research results by Hammer (2016) which report that the use of buy-and-build strategies lengthen the investment periods.

While private equity firms may be able to create value from buying the portfolio firms with a discount, the discount is not present at the add-on acquisition deals, as the pricing is similar to that of any strategic acquirer (Morkötter & Wetzer, 2016). This indicates that add-on acquisitions are meant to be synergistic, and the value of add-on acquisitions is often a result of traditional synergy levers, improved sales force effectiveness, and pricing (Brigl et al., 2016). Add-on acquisitions can also increase revenue growth (Brigl et al., 2016). The motivations for add-on acquisitions are not much researched. The previous research, however, suggests that add-on acquisitions can, at least, be used to roll-up competition in an industry that is fragmented to achieve economies of scale or market power (Hammer et al., 2016).

3 Strategic Planning in Mergers and Acquisitions

Many academics have endeavored to understand the complexities of buying and selling companies, varying from topics such as performance and returns of mergers and acquisitions (see e.g. Barney, 1988, Epstein, 2005)), learning in acquisitions (see e.g. Aktas et al., 2013), and the integration of newly acquired companies (see e.g. Gates & Very, 2003, Schweizer, 2005). One perspective adopted to better understand how individual M&A unfold is the M&A process. While the M&A process may have different presentations depending of the researcher, the idea is generally similar in each: acquisitions start with pre-combination, or pre-acquisition phase, followed by the pivotal moment of ownership transfer, and concluded by the post-combination, or post-acquisition phase (Gomes et al., 2013). The M&A process in its basic form is presented in Figure 1.

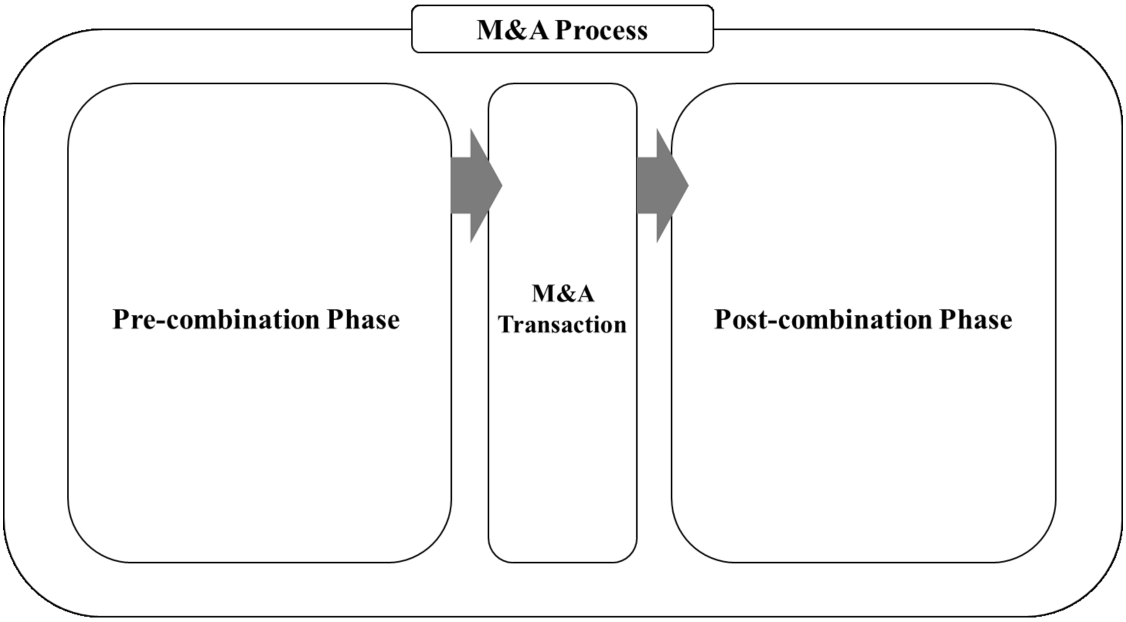

Figure 1 - The M&A Process

The exact steps that are outlined in M&A process phases depends on the researcher. Haspeslagh and Jemison (1991) present what they call the conventional view where strategic objectives, search and screening, strategic evaluation, economic evaluation and negotiations can be seen as part of the pre-combination phase, agreement as a part of the M&A transaction, and integration in the post-combination phase. However, in the same article, Haspeslagh and Jemison (1991) also challenge the conventional view as too segmented and rigid, where integration related issues are not considered prior to the deal but left to the managers to deal with after the transaction is completed. This limitation is considered in Hubbard's (2001) process, where these M&A phases are filled with slightly more planning-oriented steps. In her model, acquisition objectives, acquisition overview and acquisition blueprint which is a plan for the upcoming implementation are all part of the pre-combination. Followed with communication that can be seen as part of the M&A transaction, and implementation, stabilization, and monitoring belong to the post-acquisition phase. Arguably, the steps in the process also depend on the type of planner as well - for different planners different steps are emphasized in the process.

In the following, the focus is on the pre-combination phase: the different types of planning that can take place prior the acquisition transaction are explored. These types vary from doing very little prior planning, to planning that covers not just one, but a compilation of multiple acquisitions over time. The different planning types are organized into three categories that describe and illustrate the different forms of M&A planning. The categories are Non-Planners, Strategic Planners, and Acquisition Program Planners. They are presented in the following sections.

3.1 Non-Planners

It is acknowledged that companies engage in acquisitions without a strategic plan (see e.g. Hubbard, 2001). In these cases, the firms tend to act as a response to a sporadic opportunity, and acquisitions are seen more as strategies in themselves, instead of considering them as means to implement an existing corporate strategy (Weber et al., 2014). In their groundbreaking study in 1970, Ansoff and colleagues found out that those firms that engage in this kind of unplanned opportunistic approach are not only likely to skip planning altogether, if they fail to plan even one step, but also their acquisitions perform worse than those firms' that plan systematically. In this thesis these kinds of acquirers will be known as "Non-Planners". The overview of the Non-Planners' M&A process is illustrated in Figure 2.

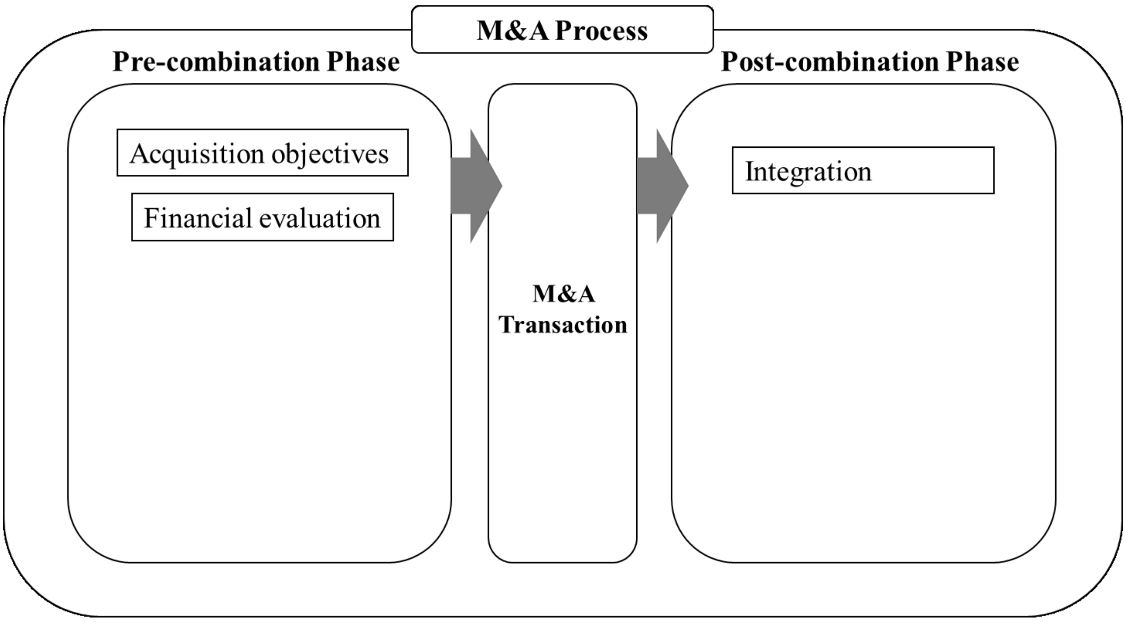

Figure 2 - The M&A Process of Non-Planners

Acquiring companies for non-strategic, such as personal and political, reasons is fairly common (Hubbard, 2001), although they are not usually cited as the official reasons for acquisitions (Trautwein, 1990). Potential non-strategic reasons for acquisitions arising from the managerial self-interest include a management compensation that rewards M&A activity and management's inflated self-confidence in own abilities to perform acquisitions, also known as managerial hubris (Haleblian et al., 2009). The underlying problem with non-strategic motives is that the actions that need to be taken after the M&A transaction are often ignored or largely overlooked as the mere fact that the M&A deal has gone through means that the personal or political goal has been achieved, no matter what happens to the M&A target afterwards (Hubbard, 2001).

The poor performance of Non-Planners if often attributed to financial estimates receiving disproportionate amount of emphasis as strategic estimates are left out (Weber et al., 2014, Marks & Mirvis, 2001). In these types of cases, the steps of the M&A process shrink mainly to analysis of financial terms (Marks & Mirvis, 2001), which leads to a results-oriented focus where acquisitions are seen as on-off deals (Haspeslagh & Jemison, 1970). The focal points of interests for acquiring companies are financial figures such as combined balance sheet of the two companies, projected cash flows and the anticipated return on investment (Marks & Mirvis, 2001). Also, as the "hard" financial estimates and criteria are considered as the ones the firm should to focus on, "softer" matters and concerns, such as cultural fit, tend to be dismissed and the deal moves forward as long as the financials look acceptable (Marks & Mirvis, 2015).

3.2 Strategic Planners

Mergers and acquisitions seem to be difficult to perform successfully. For example, according to a study by King and colleagues (2004), acquisitions do not lead to superior financial performance, but possibly to a minor negative effect in the long-term financial performance. Failure rates of acquisitions, depending on the source, linger between 70 percent and 90 percent (Christensen et al., 2011). There are many reasons why acquisitions can fail, but previous research has also found ways to alleviate these risks. Ansoff and colleagues (1970) found out in their research that planning acquisitions leads to not only significantly better results, but also to more predictable performance compared to forgoing planning. In addition, those companies that have a strategy and experience with acquisitions are more successful than those with less experience or with a reactive approach (Non-Planners) to acquisitions (Gomes et al., 2013). Figure 3 shows the M&A process for Strategic Planners. Compared to Non-Planners (Figure 2) the pre-combination phase of Strategic Planners is more extensive, which may explain some of the performance differences between the two types.

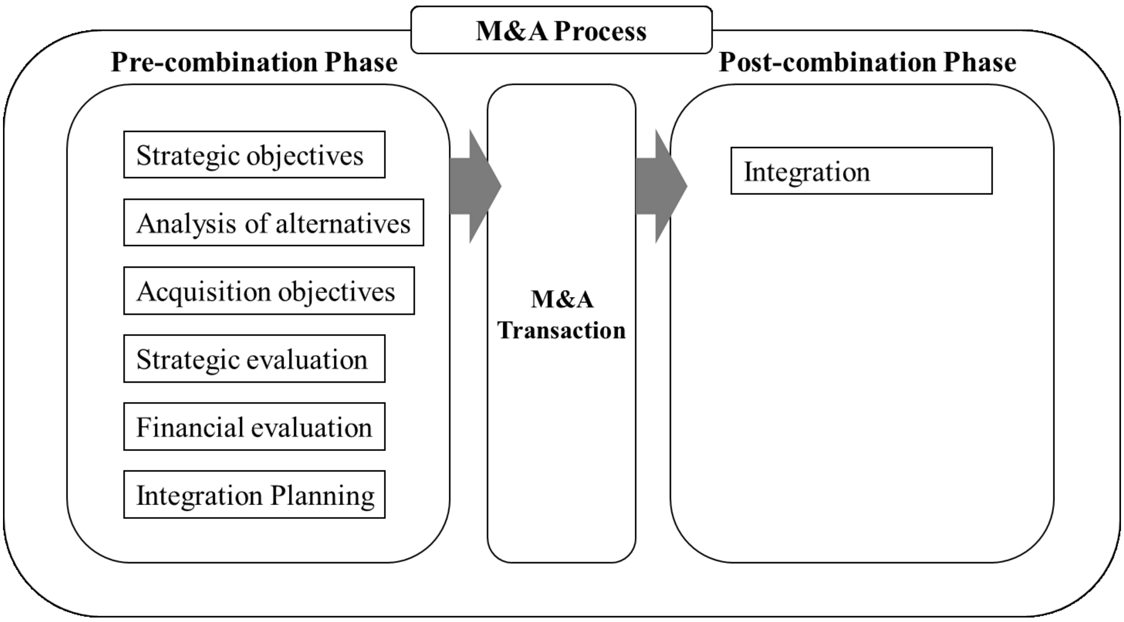

Figure 3 - The M&A Process of Strategic Planners

Strategic planning of mergers and acquisitions starts with the strategy of the company - strategy and its goals are like a common thread that travels through the M&A planning. Before any acquisitions are considered, the company is clear on where it is and what it aspires to achieve: its strengths and weaknesses, competitive and market position, management's goals, and so on (Marks & Mirvis, 2001). From knowing these, the company can set direction for itself, whatever it may be; for example diversification into new businesses, market penetration in its existing ones, increasing growth, or improving profitability (Marks & Mirvis, 2001). Regardless of what the strategy that the company embarks on is, the next step would be to assess whether or not its ambitions are best served with a merger or an acquisition, or if there are better alternatives (Hubbard, 2001).

There are substitutes to acquisitions, although they are not always considered. A company may choose to not to acquire, but to build by itself what it was hoping to achieve with an acquisition (Trautwein, 1990). However, there are options between these two ends as well: joint ventures, strategic alliances, substantial cross-holdings, and long-term customer and supplier agreements (Hubbard, 2001). However, judging whether or not to ally with another company instead of acquiring it is not an easy decision (Dyer et al., 2004). What is more, these options are not always considered at all, but rather companies jump straight to the decision to employ acquisitions (Hubbard, 2001).

If, and when, a company decides to move on with an acquisition, the strategic planners derive the acquisition objectives from the strategic objectives (Weber et al., 2014). In the current academic literature, there is an abundance of different motives used for acquisitions. Bower (2001) categorizes acquisitions into five distinct strategies based on the challenge they are used to tackle: Overcapacity, geographic roll-up, product or market extension, R&D, and industry convergence. Christensen and colleagues (2011), on the other hand, take the perspective of the business model: acquisitions can either improve the current performance, or reinvent the company's business model. Then again, Hubbard (2001) categorizes the strategic M&A motives into six different categories: Market penetration, vertical expansion, financial synergies, market entry, asset potential or synergy, and economies of scale. Similar lists of different motives can be found in a multitude of M&A related articles (see. e.g. Schuler & Jackson, 2001) which suggests that there is a variety of motivations for acquisitions.

Like with the acquisition objectives, strategy steers the decision of what kinds of target companies the company should pursue. The selection of potential M&A targets is driven by the overall strategy and the strategic goals of the acquisition (Weber et al., 2014). Deep understanding of the financial estimates is important to strategic planners, but they also include an analysis what the company would need to do to achieve those estimates (Marks & Mirvis, 2001). Managers of the acquiring companies are needed to present a rationale for the acquisition that is not only distinct and persuasive, but also it needs to go beyond the numbers to include non-financial estimates (Marks & Mirvis, 2001).

The role of integration and planning it in advance, has gained attention in the academic research. Academics have argued that planning the integration early on contributes to the success of mergers and acquisitions (see e.g. Schuler & Jackson, 2001, Haspeslagh & Jemison, 1991). In this case, "early on" means preferably before the M&A deal closes (Gates & Very, 2003), instead of delegating the whole integration in the post-combination phase to those managers who were not part of the pre-combination phase decision-making (Haspeslagh & Jemison, 1991). Marks and Mirvis (2015) list four best practices in the pre-combination phase for better success from the perspective of human and organizational aspects: Behavioral and cultural due diligence, vision for the combined organization, integration planning process, and integration principles and priorities.

3.3 Acquisition Program Planners

Out of the three M&A planner types - Non-Planners, Strategic Planners, and Acquisition Program Planners - the third is the most recent one to appear in the academic literature. Known often either as acquisition programs, or some times as serial acquirers, these types of acquirers are still finding their way to the academic research as an emerging field of study (Laamanen & Keil, 2008). Given that serial acquirers perform nearly one fourth of all acquisitions (Kengelbach et al., 2011) and that acquisition programs are widely used by companies (Keil et al., 2012), the lack of academic literature on the topic is almost surprising.

Although similar on many aspects, serial acquirers and those firms that use acquisition programs are not exactly the same. Serial acquirers are companies that are active with M&A deals: depending on the definition, they acquire at least between two (Henningsson, 2015) to four (Kengelbach et al., 2011) firms in three years. Companies using acquisition programs are serial acquirers, but with a more focused action. As defined by Keil and colleagues (2012) acquisition programs are "*sequences of acquisitions initiated by an acquiring firm, with the intention of achieving a specific business goal or market position*" (p.153). Those serial acquirers without an acquisition program can be seen as companies that actively acquire by using either strategic planning, or little planning at all. On the other hand, acquisition programs have a distinctive difference compared to Strategic Planners (Figure 3), as the company is striving to achieve the strategic goal at hand by not only one merger or acquisition, but with a collation of multiple, often significantly interdependent acquisitions (Chatterjee, 2009). Chatterjee (2009) suggests that serial acquirers are successful only when the acquisitions are part of an acquisition program. In this thesis, Acquisition Program Planners (Figure 4) will mainly refer to those companies that use acquisition programs.

Managing acquisition programs requires additional capabilities, compared to managing single acquisitions, to tackle the added complexity rising from managing multiple acquisitions within the same program. On the individual acquisition level, the firms follow the lines of strategic planning (see e.g. Marks & Mirvis, 2001), described above in Section 3.2. However, on top of the capability of managing single acquisitions, managing the whole acquisition program can be seen as one layer above that (Laamanen & Keil, 2008) as illustrated in Figure 4. It is not enough to perform only the individual acquisitions well, the program itself also needs to be managed to be successful (Keil et al., 2012).

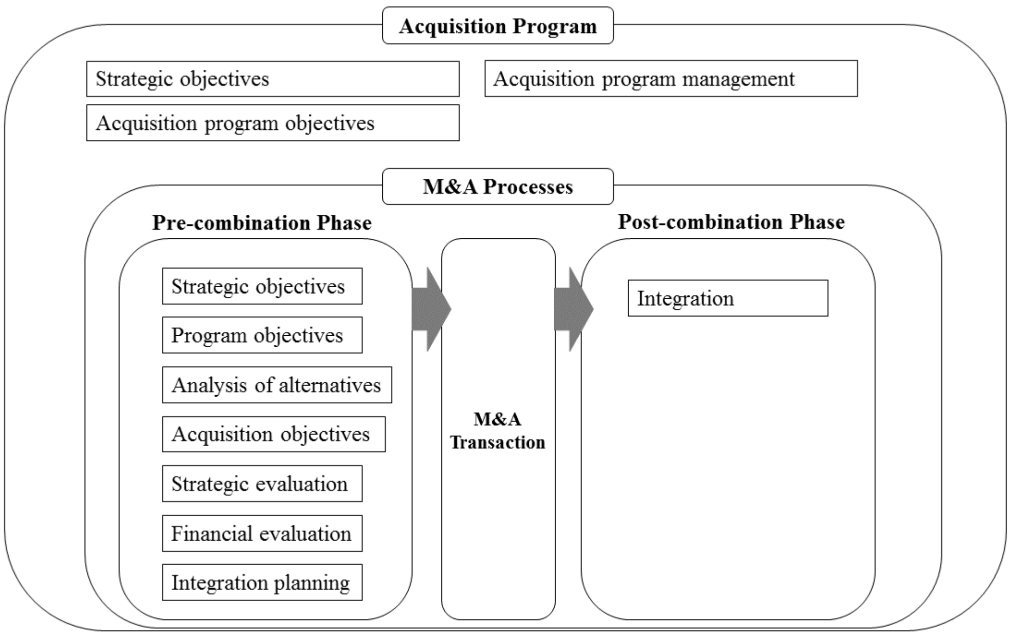

Figure 4 - The M&A Process of Acquisition Program Planners

First and foremost, acquisition programs need a clearly articulated business logic for the acquisitions to follow, as well as coordination across the acquisitions in the program (Keil et al, 2012, Chatterjee, 2009). Keil and colleagues (2012) list four capabilities needed for performing acquisition programs, illustrating the how multifaceted and complex acquisition programs can be: 1. Capability to pace the acquisition program, 2. Capability to optimize the program scope, 3. Capability to acquire optimally sized and strategically, organizationally, and culturally fit targets, and 4. Capability to manage multiple simultaneous integration processes. Other characteristics that make acquisition programs successful are, according to Chatterjee (2009), the ability to identify and exploit market inefficiencies, the conscious strive for a win-win deal, and not deviating from established processes.

It is worth to note, however, that although acquisition programs are purposeful, they are not always set in stone. Acquisition programs do not necessarily turn out as the company originally had planned (Keil et al., 2012). It is possible that an acquisition program is prematurely terminated before its planned end or that the program gets a new meaning in the acquiring firm (Keil et al., 2012). Serendipity can also play a role in the beginning of the acquisition program itself, making it an emergent strategy (Chatterjee, 2009, Keil et al., 2012). Acquisition programs may be initiated almost by accident after a firm completes a few acquisitions and starts to see a pattern common to all of them (Chatterjee, 2009). Similarly, the first acquisition in an acquisition program might be, for example, a learning acquisition that is used to understand a new business environment or a new business area. If that acquisition turns out to be successful, it may become the start of an acquisition program used to gain foothold in the new area or environment (Keil et al., 2012).

The different motives and business logics for a firm to engage in an acquisition program are not thoroughly explored in the current literature. Keil and colleagues (2012) do, however, note that they have identified acquisition programs to follow the categorization presented by Bower (2001) for single acquisitions, as described above: Geographical roll-up, product or market extension, R&D, overcapacity, and industry convergence. An acquisition program, in some cases, may demonstrate characteristics of multiple motives (Keil et al., 2012). In his article, Chatterjee (2009) lists examples of acquisition programs. These all seem to follow the categorization by Bower (2001); for example, Nestlé used acquisition programs to gain market share by expanding its product lines, and Invacare had an acquisition program that had the objective of geographical expansion. Naturally, these anecdotal examples are not enough to determine the full scope of different motives of acquisition programs, but they do offer support to Keil and colleagues (2012) and their observations.

Bringing together the three planning categories, Non-Planners, Strategic Planners, and Acquisition Program Planners, distinctive differences between them can be observed along two high-level characteristics: the number of acquisitions they focus on and the level of strategic planning. Figure 5 shows the placement of each planning type within the matrix created by the two characteristics on the axes. In this matrix, the serial acquirers are also added to the figure to illustrate the differences between them and Acquisition Program Planners. Although serial acquirers can, on the individual acquisition level, act like Strategic Planners, the collection of the acquisitions is not strategic in the same way the acquisition programs are. This is why the serial acquirers are placed in the non-strategic multiple acquisitions box in the matrix.

	Non-Strategic	Strategic
Single Acquisition	Non-Planners	Strategic Planners
Multiple Acquisitions	Serial Acquirers	Acquisition Program Planners

Figure 5 - Overview of the Planning Categories

4 Theoretical Framework

The theoretical framework presented in this chapter forms the backbone for the study. It summarizes the key ideas from the literature review, on both private equity and M&A planning. In addition, the theoretical framework serves as the underlying structure for the presentation of the empirical findings, as well as for the analysis and discussion of the findings.

To understand better how the private equity investors plan the overall acquisition activity of their portfolio firms, the theoretical framework follows five defining characteristics of different M&A planning categories: link to strategy, M&A motives, timing, evaluation criteria, and integration planning. These are presented in Table 1. The characteristics illustrate the key differences between the approaches to planning, and they are derived from the academic literature presented in the previous chapter. By mapping the overall acquisition planning by the private equity investors according to these characteristics in the empirical part, it will be easier to understand if the acquisition planning is similar to one of the three categories (Non-planners, Strategic Planners or Acquisition Program Planners), or if the category varies case by case. It could also be possible that acquisition planning in portfolio firms is a combination of these categories. The categories offer a structure to identify these possible differences.

Table 1 - M&A Planning Characteristics

Planning Characteristics	**Non-planners**	**Strategic Planners**	**Acquisition program planners**
Link to Strategy	Little to no link to strategy	Thorough planning where the objectives of an acquisition are compared to the overall strategic aspirations of the company	Collection of M&As are seen as a program, which is used to achieve a specific goal linked to strategy
M&A Motives	Managerial self-interest, personal and political goals	Multitude of potential motives: e.g. expansion in the product offering or markets, R&D, geographic extension, and so on	Acquisition programs seem to use similar motives as applied in individual strategic M&As
Timing of M&A	Sporadic, M&As arise from observed opportunities	When M&A is the best option compared to alternative ways to fulfil the strategic objectives	Timing of individual M&As is driven by the goals and pace of the acquisition program
Evaluation Criteria	Mainly financial estimates	Financial and strategic estimates in balance, including e.g. analysis of behavioral and cultural differences	Financial and strategic estimates in balance, as well as the fit within the acquisition program is considered
Integration Planning	Little to no integration planning	Integration is planned before the M&A transaction	Integration is planned in each individual acquisition before the M&A transaction

If we consider the *link to strategy*, it seems plausible that the acquisitions of the portfolio firms are linked to a "bigger plan" by the private equity investors. As described in the literature review, private equity firms seek portfolio firms that can generate financial returns in a fairly short time period, in four to six years on average, and have clear paths to exit. This means that the portfolio firms need clear direction in their activities. Thus, it could be sensible that not only do the private equity investors have a strategy for the portfolio firms for the duration of the investment period, but also that the actions, acquisitions in this case, are tied to the plan to ensure their prompt execution.

It seems that the previous research has not explored the different *M&A motives* when it comes to private equity portfolio companies. However, using acquisitions is a popular means among the private equity investors to create value by improving the operational performance and by growing the company. That would suggest that the motivations could be tied to a value creation plan the private equity investors have for the company. For example, the motivations can serve to increase the revenue of the portfolio firm or to gain larger share in their market.

The *timing*, on the other hand, is discussed more in the current literature. Due to the limited investment period, there is a pressure to complete the acquisitions as fast as possible, in order to reap the gains from the acquisitions before the investment period is over. In this respect, it would make sense for the private equity investors to act fast with the acquisitions and execute them right at the beginning of the investment. As described by the previous research, acquisitions are typically executed in the first one to three years of the investment period (Morkötter & Wetzer, 2015).

Not much is known about the *evaluation criteria* used for acquisitions in the private equity portfolio firms. However, the literature review illustrates the different ways private equity investors introduce governance methods to the portfolio firms and how they actively participate in the investment. It could be possible that the governance consequently extends to the M&A evaluation criteria as well, and the acquisitions would need to create value from the perspective of the private equity investor. However, how that value creation potential would be assessed in the acquisitions, is not clear from the private equity literature.

Considering the *planning of integration*, there is little we know of that from the private equity literature. However, from the M&A literature it is quite clear that the integration plays a notable role in the success of the acquisitions, or in the value creation of acquisitions. As the private equity investors are largely driven by value creation in order to create returns from the investments, it would seem to make sense for them to also pay attention to the planning of the integration.

However, only describing what the acquisition planning by the private equity investors looks like, on the basis of these five characteristics, does not seem a sufficient to understand the planning in the unique context of private equity. From the literature presented in Chapter 2, we know that private equity investors participate in their investments. Thus, the theoretical framework includes also the influence that is specific to private equity and arises from the unique investment model where private equity investors introduce governance models to their investments and engage in the decision-making in the portfolio firms. To explore this area, the study also looks into the role of the private equity investors to understand how involved the private equity investors actually are in the M&A activity of their portfolio firms. By investigating if the private equity investors focus on giving general guidelines for the overall acquisition activity or if they also participate in the individual acquisitions helps to put the planning characteristics to the correct perspective.

As illustrated by the literature review, in general, the private equity investors influence the actions and decisions of the portfolio firms at the board level, keeping away from the day-to-day activities. However, with regard to the acquisitions, it seems that the private equity investors can either accompany the firm in the process, or they can execute the acquisitions themselves. Executing the acquisitions themselves seems to be actually quite close to the day-to-day activities. Where is the line drawn in acquisitions - how much do private equity investors do versus how much do the portfolio firms do? Does that stay the same or vary in different situations? In addition to the characteristics of M&A planning, the study also seeks to understand the different ways private equity investors can participate in the acquisitions, and whether that varies depending on the characteristics of the case firm or is the same across all of them.

The theoretical framework is presented in Table 2. It summarizes main points from above, placing the M&A literature and the private equity literature side by side to show the perspectives from the two streams of literature. Compared to Table 1, Table 2 also includes the literature on the role of the private equity investor for a more comprehensive view. These six characteristics form the basis for the empirical findings.

Table 2 - Theoretical Framework

Planning Characteristics	M&A Literature	Private Equity Literature
Link to Strategy	**Non-Planners**: Little to no link to strategy **Strategic Planners:** M&A objectives are compared to the strategy **Acquisition program planners**: A collection of M&As to achieve a strategy driven goal	Portfolio firms need to have clear direction to generate returns. Seems plausible that the use of M&As is considered in this context, although there is little about the topic in literature.
M&A Motives	**Non-Planners**: Personal & Political goals **Strategic Planners**: Multitude of potential motives **Acquisition Program Planners:** Similar to Strategic Planners	Not explored in the literature. Possibly linked to the ways PE investors strive to create value.
Timing of M&A	**Non-Planners**: Sporadic, arise from opportunities **Strategic Planners**: When the best option compared to other strategic options **Acquisition Program Planners**: Driven by the goals and pace of the program	In the first 1-3 years of the limited investment period to reap the benefits.
Evaluation Criteria	**Non-Planners**: Mainly financial **Strategic Planners:** Financial and strategic estimates in balance **Acquisition Program Planners**: Financial and strategic estimates in balance, fit within the program	Little academic literature on the topic. Acquisitions are likely required to create value.
Integration Planning	**Non-Planners**: Little to no integration planning **Strategic Planners**: Integration planning before the M&A transaction **Acquisition Program Planners**: Planned before each M&A transaction	Not explored in the literature.
Role of Private Equity Investor	**--**	Typically, active but limited to working at board of the company. Can also execute M&As directly

5 Research Design and Methods

This chapter describes how this study was conducted. In the following, the chosen research method and its justification will be covered, including the sampling decisions, data collection sources and techniques, as well as the analysis techniques. The chapter concludes with an evaluation of the study.

5.1 Research Method and Justification

Both the mergers and acquisitions literature and the private equity literature have been dominated by quantitative studies, while qualitative studies are a minority. The bulk of private equity research follows the traditions of finance research, which tends to rely on the use of quantitative statistical methods, using large samples of archival and survey data (Wood & Wright, 2009).

The situation has been similar in mergers and acquisitions research, although possibly to a lesser extent. Especially the research originating from the USA, with focus on performance determinants, relies on quantitative methods (Meglio & Risberg, 2010). However, the use of qualitative methods is on the rise, especially in the research that originates from the Nordic countries (Meglio & Risberg, 2010). However, that is still a minority and quantitative cross-sectional studies continue to prevail. To rejuvenate the M&A research field, Meglio and Risberg (2010) promote the use of qualitative methods where appropriate, instead of solely relying on quantitative methods.

In both fields of study, there is room for the use of qualitative methods, and the use of them could bring refreshing perspectives to the fields. To answer this call, in this thesis follows the qualitative tradition of a case study. As the research question of the thesis is exploratory by nature, seeking to explore how private equity investors plan the overall acquisition activity, a case study is a fitting choice (see e.g. Yin, 2009).

The thesis follows especially the extensive case study method, in comparison to intensive case study. In the extensive case studies the goal is to 1) test or extend prior theory or 2) to create new theory (Eriksson & Kovalainen, 2008). The former of the two is the aim of this study, as discussed in Chapter 4. In an extensive case study, the focus is on the issue, or in this case, the M&A process, rather than the individuals themselves, who instead are the focus of intensive case studies (Eriksson & Kovalainen, 2008). In other words, in the context of this study, the focus is on the process of planning, rather than on the individuals who are interviewed in order to collect the data.

Overall, this study was created in an iterative manner. After completing a preliminary version of the literature review and the research design, the first interviews were set up. After these first interviews, the theoretical concepts and their relevance were assessed, and the need for additional data was determined. In this way, the additional interviews were set up and again the proposed theoretical concepts were evaluated and adjusted with more suitable literature. Once the empirical data seemed robust enough, no more interviews were set up and the focus moved to the finalization of the theoretical concepts and to a more in-depth analysis of the results.

5.2 Unit of Analysis and Sampling Decisions

The basis of a case study is the bounded unit of a case (Eriksson & Kovalainen, 2008, Yin, 2009). A case in this study consists of a firm that is or has been invested in by a private equity firm, i.e. a portfolio firm. The study is carried out as a multiple case study with five cases, as the use of multiple cases, instead of one, is seen to produce more robust results (Yin, 2009). Each of these cases will be described separately as within-case analyses, which are then followed by a comparison of the cases as cross-case analysis (see e.g. Eriksson & Kovalainen, 2008). The analysis techniques are discussed in more detail in Section 5.4.

The case companies selected for the study needed to fulfill two criteria: 1) investment by a private equity firm, and 2) acquisitions had been used during the private equity investment period. The sampling did not follow the logic of surveys and other quantitative studies, as is normal for case studies (Yin, 2009). Instead, the cases in this study were selected with replication logic (Yin, 2009) in mind. However, not seeking literal replication, or full similarity in the selected case firms (see e.g. Yin, 2009), was a deliberate choice. Instead, the case firms present broadly two types of firms: 1) those that had plenty of M&A experience prior to the private equity investment and performed many acquisitions during the investment period, and 2) those that had little prior M&A experience and performed fewer acquisitions during the investment period. This logic ensures the study is able to observe and to take into the account the potential differences between the different types of portfolio firms.

To fulfill the first criterion (*investment by private equity firm*), the cases selected for the purposes of this study represent five companies which, currently or in the past, have been managed by different private equity companies. In each case, the private equity firm held a majority ownership (>50%), which allowed them to more directly influence the activities of the portfolio firms. Thus, also their impact on the acquisition activity would be more meaningful. The goal of case company selection was to choose portfolio firms that were exited by their private equity firm, or at least close to the exit, if still under the private equity ownership. This was important, as the timeframe allowed to look into the M&A activity during the whole investment period, and thus allowed the discussion of actual events and activities and avoided forward looking guesses and forecasts. Equally important was that the exit by the private equity firm was fairly recent. If a long time would have passed since the exit, the risk of recall bias would be higher in collected data, although avoiding it completely would likely be very difficult in this kind of a study.

With regard to the second selection criterion (*must have M&A activity*), the potential case firms were evaluated based on what could be found from public sources (such as news and private equity firm websites) as well as from M&A databases (especially Zephyr). In healthcare industry acquisitions seemed to be attractive and firms in healthcare industry had been popular targets for private equity firms as well, thus access to them seemed possible. Acquisitions had been popular also in the construction industry, but unfortunately access to those firms was difficult to negotiate. On the other hand, those firms that had been less active in acquisitions represent different industries, and there were no clear industries that should be chosen for the study. All in all, each of the chosen case firms had used acquisitions, at least once, during the private equity investment period.

By applying these two criteria, the result is a subset of companies operating in Finland, which are nearing the end of private equity investment, or have been owned by a private equity firm in the recent past. When presence of M&A activity in considered, the remaining pool of potential case firms is somewhat limited. For example, in 2017, Finnish private equity firms exited only 66 firms (Pääomasijoittajat, 2018) and that figure does not consider the M&A activity criteria. For added variability, the case companies were also chosen so that they would represent different private equity firms, instead of them being invested by a same firm. This however, was not a “hard” criterion to the extent the two criteria described above were. The selection of the case firms on this aspect was also partly driven by access to interviewees (more about the interviewees below). As a result, five companies were selected for this study. The case companies are summarized in Table 3.

Table 3 - Overview of Selected Case Companies

Case	Private equity firm	Type of Acquirer	Previously PE-backed	Ongoing investment
1	1	Frequent	No	No
2	2	Frequent	Yes	No
3	3	Frequent	Yes	At the time of the interview yes, exit since then
4	3	Less frequent	Yes	Yes
5	4	Less frequent	No	No

5.3 Data Collection and Interviewing Technique

The data collected for the study consists of both a primary source in the form of interviews and supplementary secondary sources, such as websites, news and annual reports. The interviews were open, unstructured interviews (Eriksson & Kovalainen, 2008). The interviews remained conversational in the manner, but still leaned on a set of topics that helped to guide the interview and to keep the conversation flowing. This suits the research question well, as it allows for leeway in the collection of empirical data to ensure that all the topics the interviewees found relevant were covered (Eriksson & Kovalainen, 2008). The interviews were held during the period from April to October 2018. There were in total six interviews, as for one case the interviewee was interviewed in two parts due to time constraints. The length of the interviews varied from approximately 40 minutes to 1 hour 10 minutes and the language of the interviews was Finnish except for one that was held in English. The interviews are presented in Table 4.

The interviewees themselves represent the private equity firms, as that allowed them to explore the ways they and their companies have influenced the portfolio firms on acquisitions. They were also able to speak more generally about private equity and how it works, which ensured that the data encompasses the big picture of the investment as well. The added benefit of interviewing the private equity side is that they often plan their investments before the actual investment transaction, and the actions taken during the investment period are largely contingent on the plans they made before the investment. Thus, including these decisions in the collected data seems sensible. Finally, considering that changing the management is one of the means private equity investors tend to use in their portfolio firms, finding suitable interviewees on the company side might have been more time consuming that is sensible for a study of this scope.

Table 4 - Overview of the Interviews

Case	**Title of Interviewee**	**Time of the Interview**	**Interview Language**	**Interview Length**
1	Partner	April 2018	English	50 min
2	Partner	May 2018	Finnish	40 min
3	Partner	May 2018	Finnish	45 min
4	Director	August 2018	Finnish	60 min
5	Investment Professional	September 2018 & October 2018	Finnish	20 min + 50 min

The potential interviewees were found by searching the websites of different private equity firms that operate in Finland. The website of Pääomasijoittajat - Finnish Venture Capital Association, served as a good source for identifying potentially suitable private equity firms. The potential interviewees were contacted via email and the interviews were held at the offices of the private equity firms, except for one which was held via an online meeting platform.

The interviewees were encouraged to talk as much as they wanted, as well as to feel free to talk off the topic wherever they saw it relevant. In addition, any comments or explanations of how private equity works in general (instead of comments strictly on the case) were accepted and encouraged. This allowed to gather data on variety of topics, and helped to understand the context better, even if some of the answers were out of the scope of the study and thus not used in formulating the findings. The questions asked from the interviewees remained mainly open-ended, but also some closed questions were used. The closed questions were essentially used to clarify given answers to check that they were understood correctly.

One of the strengths of a case study is the ability to use different sources of data to complement the interviews (Yin, 2009). In this study, annual reports, news and websites of the portfolio companies as well the websites of the private equity firms were used to acquire additional data for building informed case descriptions. The same sources were also used prior to the interviews to help to prepare for them.

5.4 Analysis of Data

As mentioned above, the analysis of the collected data follows the idea of within-case analysis combined with cross-case analysis, both of which are often used in multi-case studies (Eriksson & Kovalainen, 2008). Firstly, in the within-case analysis, the five different cases are constructed into separate, holistic descriptions that depict the overall situation and context in each case. In cross-case analysis, the cases and the responses given by the interviewees are investigated to understand what the different interviewees had to say about the topics presented in the theoretical framework.

In this study, the analysis of the data is largely based on the theoretical framework described in the previous chapter. The analytic technique chosen for the study is similar to what Yin (2009) calls Pattern Matching. In this technique, the empirical data is compared against a predicted pattern (Yin, 2009). In other words, the theoretical framework provides a structure for the empirical part and thus allows for a meaningful grouping and analysis of the data.

In practice, all of the interviews, except for one, were recorded. The recordings, and the notes for the one which was not recorded, were transcribed into case memos. Based on these memos, the all of collected data was evaluated, and the data from different cases was combined into broad topics that seemed potentially match the different aspects of the theoretical framework. Some of the data was also categorized to be used mainly in the case descriptions, although the case descriptions used data from the other topics as well. After the general categorizations, each topic was inspected more closely to notice similarities and dissimilarities between the cases. In addition to the comparisons between the cases, the theoretical assumptions arising from the literature review were also compared against the empirical data to evaluate which parts of the data discussed these assumptions and what might be new information outside the scope of the current literature. Throughout the analysis, the data was checked back against the memos, as well as the original recordings and notes, to make sure that the meaning of the data was not lost or altered during the analysis.

To ensure the privacy of the participating private equity firms and the interviewees, as well as the portfolio firms, the case firms are issued code names in this study. The code names HealthCo, RetailCo, FoodCo indicate the industry the case companies operate in, but do not hold any additional information, for example related to the real company names or the private equity firms and should not be taken as anything else but placeholder names.

5.5 Evaluation of the Study

Although the chosen research method seems to be suitable for a study of this size, it is still worth to consider what might have been alternative ways to conduct the study. For example, the topic would benefit from longitudinal research that observes the process of planning as it happens (instead of retrospective viewpoint which is subject to e.g. recall bias) (see more Van de Ven, 1992). However, for the time constraints and the difficulty of access, this was not possible within the scope of this thesis. In addition, although not the same study, but a study on the same topic could have been also conducted by using quantitative methods. For example, it is worth mentioning that although the goal of this study is to explore a new area, extensive case studies cannot generalize results to apply to certain populations in a same way that quantitative statistical studies can (Eriksson & Kovalainen, 2008). Instead, the generalizations apply to theoretical propositions (Yin, 2009: 15). But then again, a quantitative study would have ignored the call for more qualitative studies.

There are also a few things to consider about the sampling decisions. Although the potential case firms were listed and evaluated for their fit in the sampling criteria, the final selection of case firms was affected by sheer access to the interviewees. This may potentially lead to a bias in the results, affecting the results. Although unfortunate if so, as the selection for interviewees was driven mainly by access, there is little that can be done to avoid this potential bias altogether.

In the data collection and interviewing technique, it is worth to note that the interviewees were given almost a "carte blanche", or the freedom to discuss what they saw relevant (regarding the overall topic at hand). Although this resulted in a broad collection of data and allowed for the inclusion of such details and topics that would have otherwise gone unnoticed, it also affected the comprehensiveness of the data. This means that none of interviewee discussed the same things, leaving potential gaps in the data in the sense that some of the findings rely on information given by only a subset of the interviewees.

Also considering the interviewing technique, the interviews were mainly held in Finnish. As this thesis is written in English, the direct quotes presented in the next chapter mostly translated. The original wording is preserved as much as possible, but since it is difficult to translate the quotes verbatim, some adjustments had to be made to convey the message in, at least somewhat understandable, English. To avoid misinterpretations of the original quotes, the quotes were firstly translated word for word, and then adjusted as little as possible to make the message coherent, in order to keep as much of the original quote as possible.

6 Empirical Findings and Discussion

In this chapter, the results of the study that was described in the previous chapter, are explored, which will lead to the overall findings of the thesis. Firstly, in the first section, the five cases selected for the study are described to present the different cases on which the research findings are built. The rest of the chapter is devoted to cross-case analysis which is structured around the six characteristics of the theoretical framework. The findings presented in this chapter will be discussed in Chapter 7.

6.1 Case Descriptions

The study consists of five cases that are described below. The case descriptions focus on describing the overall situation in the portfolio firms, i.e. the cases, during the private equity investment period. In other words, these case descriptions are intended to explore each case as within-case analysis as well as to "set the scene" for the findings and discussions following this section. The case descriptions also analyze the acquisition activity in each case to give an understanding of the acquisitions that took place in each case.

The cases are divided into two: the three cases with high M&A activity (both prior and during the private equity investment) are described first. Then, the last two cases, where M&A activity has been less frequent, are described. In addition, it is worth to note that some of the case companies described here have been invested in by a different private equity firm in the past. For the purposes of this thesis, however, the study focuses on the actions taken only during the investment period of the interviewed private equity firm, and that is where the focus of the case descriptions is as well. Figure 6 illustrates the investment period of each case. From the figure, we can see that each case is quite recent, and Case 4 is still an ongoing investment. The figure also shows that the cases overlapped each other partly, thus they were also operating in similar overall economic conditions. In the case descriptions, the timeline for each case is presented to illustrate in more detail the acquisitions that happened during the investment period.

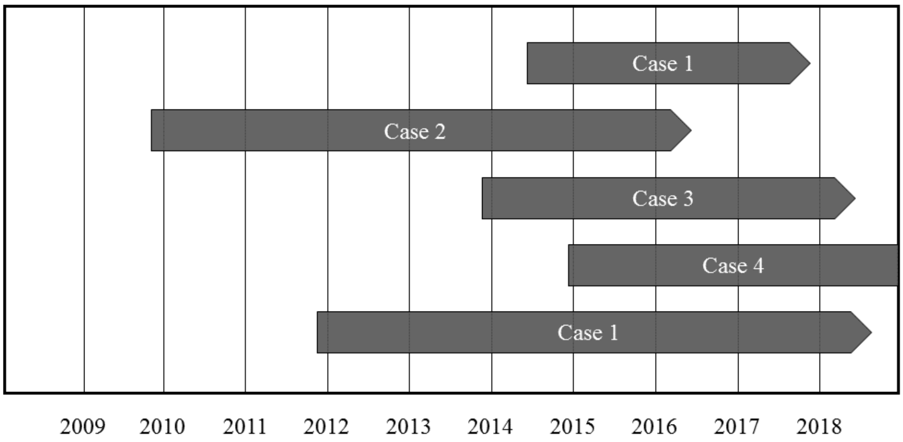

Figure 6 - Timing of the Five Cases

Case companies with high M&A activity

Case 1 - HealthCo 1

In 2014, a Nordic private equity firm that invests in mid-market firms invested in HealthCo 1. After following the HealthCo 1 for years, the time was right, and the private equity firm in question chose to delist HealthCo 1 from Nasdaq Helsinki. After nine months of delisting process, the private equity firm acquired a majority ownership in HealthCo 1 in June 2014. At the time of delisting, HealthCo 1 was, although fairly small (see Table 5), still a major player in its very fragmented (over 1 200 players in Finland) market. The market itself was seen by the private equity firm as stable and growing.

Table 5 - Case Companies During the Investment Period

Case number	Case Name	Previous owner	Turnover at entry	Exit channel	Turnover at exit	Length of investment period	Time at entry	Time at exit
1	HealthCo 1	Publicly listed	60 m€	Sale to a strategic buyer	100m€	3y 5m	06/2014	10/2017
2	HealthCo 2	Privately owned	20 m€	IPO	215 m€	6y 6m	12/2009	05/2016
3	HealthCo 3	Another PE firm	305 m€	IPO	690 ,5m€	4y 7m	12/2013	06/2018
4	RetailCo	Another PE firm	80 m€	-	-	-	12/2014	-
5	FoodCo	Family-owned	60 m€	Sale to a strategic buyer	105 m€	6y 8m	12/2011	07/2018

These market characteristics, which provided opportunity for market consolidation and the leader position, formed a good basis for the investment. In addition, the private equity firm evaluated the management team and the overall organization to be in a good shape. The goals for the investment period were set: to grow HealthCo 1 above 100 million euros in sales and become the leading firm in Finland. The means for achieving the goals were also decided on: value creation organically through, for example, investing in new services and new digitalization enabled tools, as well as through improving margins. In addition, the private equity investor also included inorganic growth in the plans. Acquisitions were seen as a good way to create value and were used for geographic expansion, industry consolidation, adding new services, and improving utilization, to mention a few. HealthCo 1 had acquisition experience also before the investment period, which in part allowed for an efficient use of acquisitions.

The acquisitions were frequently used during the investment period, from the beginning until the very end of it. Figure 7 illustrates the timeline of the investment and the small circles show the timing of the individual acquisitions. HealthCo 1 totaled approximately 45 acquisitions during the investment period, according to the interviewee. The data in stored Zephyr, the international database for mergers and acquisitions, show a somewhat smaller amount, 27 (see Table 6). Considering that the private equity firm exited HealthCo 1 in October 2017, a slightly over three years after the beginning of the investment, HealthCo surpassed by far the definition of serial acquirer (2-4 acquisitions in three years) described in the literature review. The acquisitions varied in size, ranging from small clinics of two to three employees to a large acquisition of 7 million in sales.

The private equity firm in question exited HealthCo 1 in October 2017 by selling HealthCo 1 to an industrial buyer. At the time of the sale, HealthCo 1 had approximately 100 million euros in turnover, which meant that the size-related goal of the private equity firm was achieved. HealthCo 1 has kept acquiring even after the exit by the private equity firm.

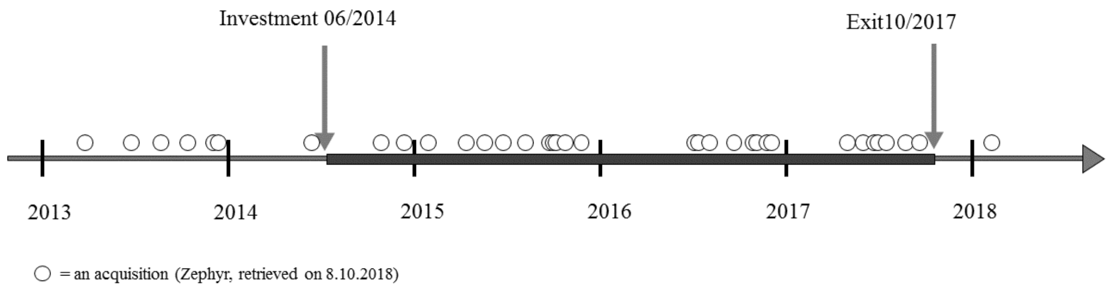

Figure 7 - Timeline of Case 1

Case 2 - HealthCo 2

The private equity firm that invested in HealthCo 2 operates in Finland and invests in small and medium sized (10-100 million euros in turnover) Finnish companies. The private equity firm invested in HealthCo 2 in December 2009, when it acquired a majority ownership in HealthCo 2. HealthCo 2 was found interesting by the private equity firm, as it was a firm that had a distinctively own way of operating that stood out from the other firms in the market. In addition, one of the appealing aspects in HealthCo 2 was the highly entrepreneurial CEO. HealthCo 2 fitted the investment strategy of the private equity firm in other ways too, thus the investment was seen as a good one. At the time of the investment HealthCo 2 was quite small company with only 20 million euros in turnover and smallest of the case firms (compared to the size at the beginning of the investment), although it grew tenfold during the investment period (see Table 5).

The growth of HealthCo 2 was fueled by both organic and inorganic growth. Organic growth stemmed from developing and boosting new lines of services that were still smaller in the beginning of the investment. To boost the market position of HealthCo 2, also acquisitions were used as a form of inorganic growth. HealthCo 2 performed approximately 30 acquisitions, according to the interviewee, during the investment period, varying from smaller ones to one notably larger one with approximately 16 million euros of turnover at the time of the acquisition. Zephyr reports 20 acquisitions for HealthCo 2 (see Table 6). The acquisitions are shown in Figure 8, which illustrates that the use of acquisitions started after the first two years of the investment, and continued after the investment period as well.

Table 6 - Acquisitions by the Case Companies

Case	**Reported number (approx.)**	**Zephyr number**	**Previous acquisition experience**	**Motivations for acquisitions**
1	45	27	Acquisition-led strategy in the past	Geographical expansion, industry consolidation, improving utilization, new services
2	30	20	Acquisition experience before the investment	Geographical expansion, new services
3	20	11	Acquisition experience before the investment, a collation of over 150 acquisitions	Geographical expansion, industry roll-up, new services
4	5	4	Bought back its franchised stores in the past, one "foothold acquisition" under previous PE	Geographical expansion, building internal capability
5	3 + a few small acquisitions	5	Some acquisitions at the early stage of the company, none near the PE investment	New services, new business locations

HealthCo 2 was exited by the private equity firm in May 2016 after HealthCo 2 was publicly listed in the Nasdaq Helsinki in June 2015. The investment period thus lasted approximately six and a half years. At the time of the investment HealthCo had grown to approximately 210 million euros in turnover.

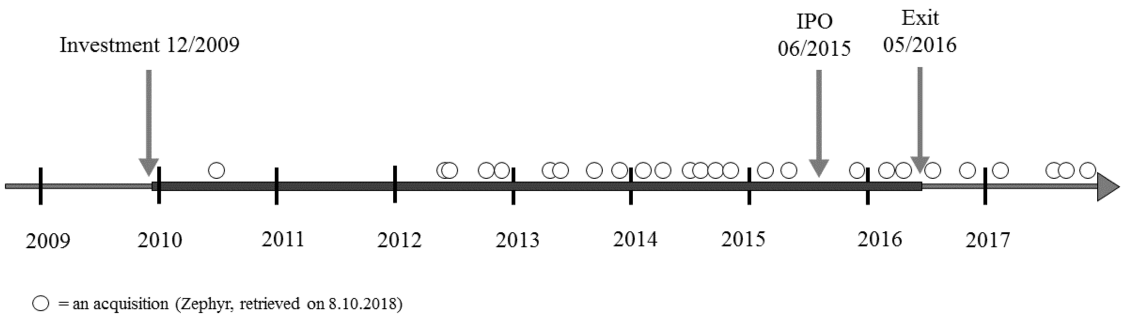

Figure 8 - Timeline of Case 2

Case 3 - HealthCo 3

HealthCo 3 was invested in by a Swedish private equity firm that also has strong presence in Finland, as a part of its global presence. The private equity firm in question invests in portfolio firms that benefit from underlying large trends in the markets, and target firms tend to be either leaders or second largest in their respective markets. In December 2013, the private equity firm acquired HealthCo 3 from another private equity firm. At that time, HealthCo was among the two leaders in the market, sized at approximately 300 million euros in turnover making it the largest of the case companies (see Table 5). The underlying trends that HealthCo 3 was seen to benefit from included the aging population, the willingness to invest in healthcare, and efficient occupational healthcare. In addition, the private healthcare section was seen to grow, and HealthCo 3 was evaluated to be a high-quality provider of services.

The goals set by the private equity firm to HealthCo 3 included investments to digitalization, improving the efficiency of the medical staff, as well as boosting the effectiveness of the business model. In addition, HealthCo 3 grew geographically by opening new offices, but also by acquiring existing businesses especially in those locations where their standing was not as strong. During the private equity investment period, HealthCo 3 completed reportedly approximately 20 acquisitions of varying sizes. As shown in Table 6, according to Zephyr the total number of acquisitions is 11. Out of the acquisitions, one especially was a larger one (approximately 130 million euros in sales). The timeline of HealthCo 3 and its acquisitions are shown in Figure 9. From that, it is possible to see that the acquisitions were executed in collations across the investment period, although the first year of the investment period did not have any acquisitions. Noteworthy is that HealthCo 3 has been an active acquirer also before the investment and was at the time of the interview a collation of approximately 155 acquisitions, according to the interviewee.

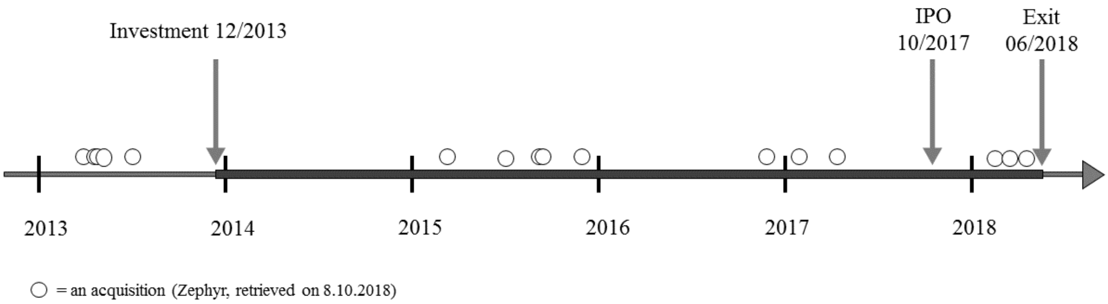

Figure 9 - Timeline of Case 3

At the time of the interview, the private equity firm was still an owner of HealthCo 3, although HealthCo 3 was already listed in Nasdaq Helsinki. However, after the interview, the private equity firm has sold its shares and thus exited HealthCo 3. The length of the investment period totals to approximately 4 and a half years, concluding HealthCo 3 also as a serial acquirer (as defined by in the literature review). At the time of the exit, HealthCo 3 had turnover of approximately 690 million euros after over doubling the turnover during the investment period.

Case companies with less frequent M&A activity

Case 4 - RetailCo

RetailCo is the only one, out of the five case companies, where the private equity firm has not made its exit yet. The private equity firm is the same Swedish one that also invested in HealthCo 3. During the summer of 2014, the private equity firm started working on the acquisition, and in December 2014, the private equity firm acquired a majority ownership of RetailCo from another private equity firm (see Table 5). The previous private equity firm retained a minority ownership in RetailCo. At the time of the acquisition, RetailCo was a leader in its Finnish market. RetailCo was seen as an attractive investment, in addition to its market position, as the underlying market was growing due to changing consumer behavior. On the other hand, the private equity firm had previous experience both in retail and in the market itself.

The goal or RetailCo was clear: to become the leader of its market in the Nordics. Acquisitions played significant part of this geographical expansion from the very beginning. RetailCo had a little previous experience with acquisitions before the investment, but the private equity firm brought acquisitions to RetailCo from the beginning. When the private equity firm was still negotiating the investment in RetailCo, it also simultaneously negotiated with a Swedish player that would then be acquired by RetailCo at the beginning of the investment period. In addition to this quite significant acquisition, RetailCo acquired another company in Sweden, as well as smaller companies to strengthen its online store related capabilities. According to Zephyr, the total amount of acquisitions was four (see Table 6). The timing of the acquisitions can be found in Figure 10, which illustrates how the first acquisitions were in the beginning of the investment period, and the rest two years later. In addition to the acquisition, RetailCo also grew organically and improved its operations, for example related to IT systems, warehousing, and digitalization.

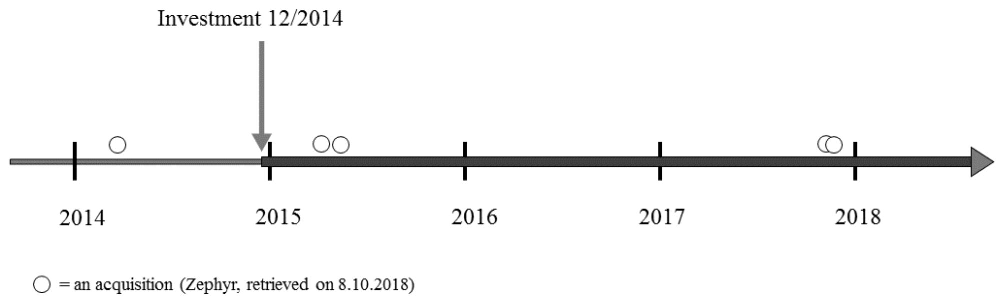

Figure 10 - Timeline of Case 4

As the investment is still ongoing, it is possible that RetailCo will engage in more acquisitions, with potentially different motives or sizes. However, for the purposes of this thesis, the focus is on the acquisitions RetailCo had already done by the time of the interview (September 2018). Thus, the focus is on the first four years of the investment period. Since the interview, there has been no announcement of an exit, although Zephyr reported rumors of potential exit in June 2018.

Case 5 - FoodCo

The private equity firm in this case is a Finnish private equity firm that invests in Finnish and Swedish firms with approximately 10-200 million euros in turnover. The private equity firm invested in FoodCo in December 2011, which was then approximately 60 million euros in turnover (see Table 5). Before the investment, FoodCo was a family owned business that lacked an heir, someone to continue the business in the families that owned it. This meant that the company was at a crossroads and in a need of a transformation into a non-family owned business. Although the market FoodCo operates in was a somewhat unusual for private equity investment, the private equity firm evaluated FoodCo to be an interesting company with growth potential in its market.

At the time of the investment, FoodCo operated two separate businesses. For both, the use of acquisitions was seen as feasible choice. However, after a failed attempt to build the other one with an acquisition, it was decided that that line of business would be divested. The remaining business was, however, successfully expanded into a new market segment with the use of two acquisitions. FoodCo also attempted to grow in the new market segment by building its own business concepts, but unfortunately that plan did not work out as planned and was terminated. In addition to building a new line of business, FoodCo's "old" business was expanded with a few acquisitions as well. The total amount of acquisitions for FoodCo, according to Zephyr, was five (see Table 6). The acquisitions concentrated mainly to the first two and three years of the investment period, although at least one acquisition was completed later on. See the timeline of the acquisitions in Figure 11. Due to the background in family ownership, the growth of FoodCo was also supported by other actions as well, such as improving the organization and changing management.

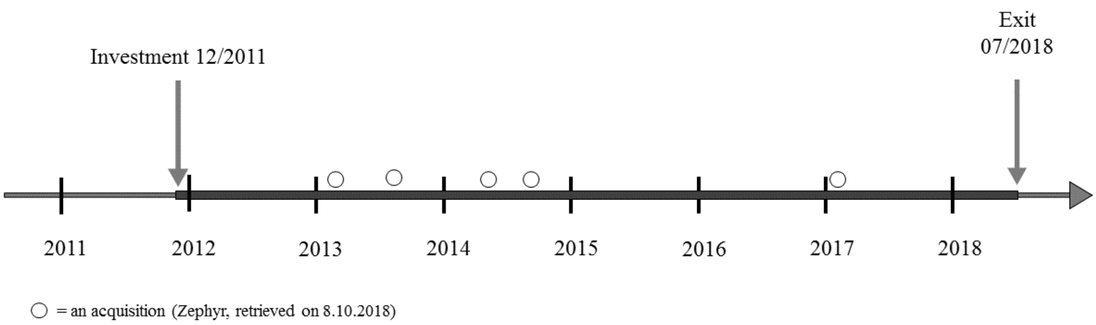

Figure 11 - Timeline of Case 5

FoodCo was exited in July 2018 by the private equity firm and FoodCo was sold to an industrial buyer. In total, the investment period by the private equity firm lasted approximately seven and a half years. At the time of the exit FoodCo had grown to approximately 105 million euros in turnover.

6.2 Characteristics of Acquisition Planning

This section explores what the acquisition planning by the private equity investors looks like in the different cases. The analysis leans on the M&A planning side of the theoretical framework presented in Chapter 4. On the focus of this section is the six characteristics, as identified in Chapter 3, which are used to describe the different types of planning in acquisitions. The six elements are Link to Strategy, M&A motives, Timing, and Evaluation Criteria, Integration Planning and Role of Private Equity Investor.

6.2.1 Link to Strategy

Common to all of the cases in this study, the private equity investors had created a plan for the company of the things they wished to achieve during the investment period. This plan had different names depending on the private equity firm; it was called by the interviewees, for example, a value creation plan (HealthCo 1, HealthCo 3) or a business plan (RetailCo). Regardless what the name was, the plans were made prior to the beginning of the investment. As the interviewee for HealthCo 3 describes the purpose of the plan:

"The day you become an owner, you have a vision of what needs to be done to the company. An ownership strategy, or as we call it, a value creation strategy. And it varies depending on the company."

The plans included a clear direction for the portfolio firm, for at least the duration of the private equity investment, giving the portfolio firms overall strategic goals. For example, the goal for RetailCo was to become a market leader in the Nordics. FoodCo aspired to add a new market to its product portfolio. For HealthCo 3, the goal was to grow the company and become the leader in the Finnish market. The different aspirations for the portfolio firms are described in above in the case descriptions. As described by the interviewee for HealthCo 3, these goals were also translated into quantifiable measures that private equity firm could then follow throughout the investment.

If known at the time of the creation of the plan, the use of acquisitions was listed to the plans. The acquisitions could be listed as goals that were to be achieved with the acquisitions, for example, in the case of HealthCo 3 this meant listing the amount of sales and operating profit they targeted to gain though the acquisitions. HealthCo 1 listed how many acquisitions they wished to complete during the investment. For HealthCo 2, the specific acquisitions were not known yet at the beginning of the investment period, but the plan mentioned they would be used. For RetailCo, instead, the investment began with an acquisition, thus the target for the first acquisition was known from the beginning. Moreover, in the case of FoodCo, it was clear that acquisitions would be used to achieve its goal of entering a new line of business.

In each case, however, there were acquisitions that appeared more or less by chance, thus not all of the acquisitions were listed in the plans made at the beginning of the investment. The plans included broad plans and goals for the companies, not necessarily the names of the companies that were targeted later on in the investment period. This was common across the cases, unless the acquisition was close to the beginning of the investment period, the exact company would not be named. For example, in the case of HealthCo 2, even the largest acquisition they completed was not in the initial plans.

The popularity of acquisitions was apparent in the interviews with the private equity investors. Acquisitions, for example, were apprised as one of the most important components for growth by the interviewee for HealthCo 2. One of the appeals of acquisitions was, according to interviewee for HealthCo 3 the convenience: it was easier and faster to buy as the customers were already there and there were no need to, for example, build new offices as the targets had established business locations. FoodCo actually tried to build a new concept from scratch. However, that did not work out, and it became clear that, by acquiring, it is possible to get concepts that are already tested and working. Those concepts could then be scaled up within the company. Nonetheless, it was typical that acquisitions would be used in the portfolio companies, as described by the interviewee for FoodCo:

“The use of acquisitions is always certain. Or that… It is without exception in our investment cases that we investigate the opportunities for M&A.“

Table 7 combines the findings from this section with the literature on private equity and mergers and acquisitions. The empirical findings point out that the private equity investors have clear goals for the portfolio firms. The plans and goals were laid out at the beginning of the investment and the use of acquisitions was also included in these plans. Comparing these findings to the theoretical framework it seems that the planning reminds Strategic Planners, arguably even Acquisition Program Planners since there was a clear strategic goal that the acquisition was linked to. The findings also support the assumptions arising from the private equity literature.

Table 7 - Summary of Link to Strategy

Planning Characteristics	**M&A Literature**	**Private Equity Literature**	**Empirical Findings**
Link to Strategy	**Non-Planners**: Little to no link to strategy **Strategic Planners:** M&A objectives are compared to the strategy **Acquisition program planners**: A collection of M&As to achieve a strategy driven goal	Portfolio firms need to have clear direction to generate returns. Seems plausible that the use of M&As is considered in this context, although there is little about the topic in literature.	Clear strategic direction for the investment period. The use of M&As linked to this through value creation plans that are made at the beginning of the investment.

6.2.2 M&A Motives

As the strategic goals for the portfolio firms varied case by case, so did the mix of motives for using acquisitions. However, there were common motives as well. In one way or another, geographical expansion was present each case's acquisition rationales. In RetailCo, the expansion to Sweden through acquisitions was an essential part of the goals for the investment period. In the cases of HealthCo 1 and 3 acquisitions were targeted to the geographical areas where these companies were not yet present. In HealthCo 2, the geographical expansion helped it to gain foothold in the capital region, whereas in FoodCo the acquisitions took the company's presence to outside of the capital region. Expansion to new business areas or adding new services were also among the motives in the case companies. For example, FoodCo, HealthCo 2, and HealthCo 3 all had entered a new line of business during the investment period. The additions, however, were not very far from the existing business. Other motivations for acquisitions included building an internal capability (RetailCo), improving utilization (HealthCo 1), and boosting the growth of the existing business by acquiring new companies to the existing business (HealthCo 1, 2, 3 and FoodCo).

Interestingly, the private equity investors had their own way to categorize the different acquisitions their portfolio firms performed. The interviewees for RetailCo and FoodCo even explicitly made the division between impactful and less impactful acquisitions by describing the two broad categories: transformative acquisitions and non-transformative acquisitions.

"There was an opportunity to do strategically transformative and/or larger acquisitions. And, on the other hand... To do, to boost the [organic] growth of the business, smaller acquisitions." (FoodCo)

Transformative acquisitions were those acquisitions that were in some way significant to the portfolio firm. In the case of RetailCo, for example, the first acquisition was seen as transformative: it was large in size and created a major foothold in a geographical area, Sweden. Then on the other hand, in the case of FoodCo, the transformative acquisition was quite small in size (although later on scaled up to become larger), but it was the first service of its kind to the company, and served as a platform to other acquisitions in that market, opening up a new line of business for the company. In each of the HealthCo cases, there was also a large acquisition: HealthCo 1 bought a competitor, HealthCo 2 bought a company through which it got a strong position in the capital region, and HealthCo 3 bought a major competitor.

The non-transformative acquisitions were those acquisitions that, from the perspective of the private equity investor, were more minor, either by size or by its impact to the company. For example, in the cases of all of the HealthCo's, they all performed a continuous stream of acquisitions and a big share of them where non-transformative. The main driver for these kinds of acquisitions seems to be growth: they tended to be so small that the private equity investors almost did not consider them as "real" acquisitions, but more like organic growth (see also the FoodCo quote above). This is illustrated by these two quotes:

"The sizes of these companies varied quite a lot, so there was almost like… You could say that these smaller ones were more like recruitment, when there are two to three [employees] it's not a huge acquisition." (HealthCo 1)

"Single [offices], business locations… They are on the borderline whether they are acquisitions or more like you take over an operation and pay some key money to someone for it" (FoodCo)

Considering these findings, the motives used in the acquisitions by the portfolio firms were strategic, thus the planning can be seen to remind either Strategic Planners or

Acquisition Program Planners (see Table 8). However, the division between the transformative and non-transformative acquisitions seems like a central insight but is not emphasized by either the literature on M&A planning or private equity.

Table 8 - Summary of M&A Motives

Planning Characteristics	**M&A Literature**	**Private Equity Literature**	**Empirical Findings**
M&A Motives	**Non-Planners**: Personal & Political goals **Strategic Planners**: Multitude of potential motives **Acquisition Program Planners:** Similar to Strategic Planners	Not explored in the literature. Possibly linked to the ways PE investors strive to create value.	The M&A motives can be divided into two categories, transformative and non-transformative ones, by their impact to the portfolio firm.

6.2.3 Timing

The frequent acquirers held up a fairly brisk pace in their acquisitions, and they did not "stop" acquiring. The interviewee for HealthCo 2 described that as long as there are sensible opportunities, the acquisition activity would continue. The interviewee for HealthCo 1 told that the acquisitions were a "continuous effort". In the case of HealthCo 3, they actually acquired more than was initially planned as the market conditions were favorable for acquisitions. Of course, it is worth to note that these companies had been acquiring companies before the investment also (see case descriptions in Section 6.1) thus, they had the structures and skills to keep up the active acquiring. For the less frequent acquirers there were naturally longer pauses between the acquisitions for the mere reason that they performed less of them.

For some of the individual acquisitions, particularly the smaller ones performed by the frequent acquirers, the timing seemed somewhat sporadic and opportunity driven.

Especially for HealthCo 1 and HealthCo 3 there was a many potential acquisition targets available due to their markets being fragmented and because of the challenges faced by the target companies. This led to the target companies' owners being highly willing to sell their companies or even drove them to contact the portfolio companies in the hopes they would be willing to buy the companies. As the interviewee for HealthCo 3 illustrates:

"The rise of digitalization and the growth of pressure created by digitalization were large drivers there… There were plenty of willing sellers. We were not always the first [proposing a sale], but some people came to us at [HealthCo 3] and wanted to [sell their company]."

However, even in these cases, the acquisitions were evaluated against the criteria presented in the next section (Section 6.2.4), and thus not did significantly differ from the other acquisitions the firms performed.

Interestingly, the acquisitions did not seem to take place during a specific time in the investment period. Even the larger and transformative acquisitions were spread out across the investment periods (see the timelines in Section 6.1): for RetailCo it was right in the beginning of the investment period, for FoodCo about three years into the investment, and for HealthCo 3 the acquisition was accepted by the authorities in March 2017. In October 2017, HealthCo 3 became a publicly traded company, and in June 2018, the private equity firm exited HealthCo 3. The interviewees for RetailCo and HealthCo 3 admitted that it would be nice to complete the acquisitions early on, but that especially the smaller ones do not really "rock the boat", i.e. it makes little difference when they are completed. Nevertheless, the interviewee for RetailCo claimed, the companies are developed with a longer time period in mind than that of the investment period, and if it the acquisition is beneficial to the portfolio firm and fits the criteria, it will be likely executed even if the investment period is at its end. Both the interviewee for HealthCo 3 and for RetailCo mentioned that when the acquisitions are close to the end of the investment period, they just need to be part of the story, of the sales pitch that is told to the potential next owners to highlight the benefits of them. The interviewee for RetailCo acknowledged that acquisitions in the end of the investment period would require extra explaining in when the private equity firm is seeking new owners but would not hinder from acquiring.

The timing is where the differences between the previous literature and the empirical findings are clear. The literature on private equity presents that the acquisitions are typically performed in the first years of the investment period (see Table 9). However, as illustrated above and in the case timelines in Section 6.1, the acquisitions in some of the portfolio firms took place after the first years as well, sometimes right at the end of the investment. Determining what kind of planner is the most fitting is not as clear. Strategic Planner fits for the most part of the cases, but some of the individual acquisitions were close to Non-Planners as well. Table 9 summarizes these findings and adds them to the theoretical framework.

Table 9 - Summary of Timing of M&A

Planning Characteristics	**M&A Literature**	**Private Equity Literature**	**Empirical Findings**
Timing of M&A	**Non-Planners**: Sporadic, arise from opportunities **Strategic Planners**: When the best option compared to other strategic options **Acquisition Program Planners**: Driven by the goals and pace of the program	In the first 1-3 years of the limited investment period to reap the benefits.	Acquisitions were performed throughout the investment period, also near the end of it.

6.2.4 Evaluation Criteria

The criteria used to evaluate the potential acquisitions seemed to vary from case to case, indicating that the criteria is adapted to fit the needs of the case firm in question. However, there were similarities between the cases as well: in each case, the evaluation criteria included both financial and non-financial criteria. These criteria were often laid out already in the investment plan created before the investment, and at least as is with the case of HealthCo 3, each acquisition needed to fit within these pre-set criteria.

Out of the financial criteria, each interviewee mentioned valuation or pricing criteria as one of the measures they used to evaluate the potential targets. The price seemed to be often a deal-breaker - a price above the accepted level deterred from acquiring. For example, in the case of HealthCo 1, their acquisition plans changed as new competition arose during the investment period and drove up the acquisition prices. The competitors were willing to pay a higher price than HealthCo 1 for the potential targets, which meant that those companies were lost to the competition. On the other hand, the implications of competition for the acquisitions were possibly even larger for FoodCo. At the beginning of the investment period, FoodCo operated two loosely linked lines of business. However, as the planned, potentially transformative, acquisition for one of the businesses was lost due to too high price compared to perceived value, the whole business ended up being divested. Interestingly though, the private equity firm of HealthCo 2 has a philosophy that they do not, with their portfolio firms, participate in acquisitions where there are other companies competing for the deal. According to the interviewee, they rather negotiate directly with the potential target company to avoid the price competition.

Other financial criteria that were used in the acquisitions included evaluation of the value creation, or synergy, potential of the target firm. These criteria were especially mentioned by interviewees of the frequent acquirers, whereas the interviewees of the less frequent acquirers focused on other criteria. For example, in the case of HealthCo 3, in addition to the synergies related to buying and pricing, also operational synergies were considered. This meant evaluation of, for example, whether a clinic could be closed in an area where there were enough clinics.

In addition to the financial criteria, a variety of non-financial criteria were used as well. For example, fit within the strategy was a criterion mentioned across the cases. In the case of RetailCo, the interviewee illustrated the significance of fit with the strategy:

"The most important thing is that the acquisitions align with the strategy of the company."

Other non-financial criteria cited by the interviewees included, for example quality of the offered services (in HealthCo 1 and FoodCo), fit into the current offering of the portfolio firm (FoodCo), scaling potential (FoodCo), the people and culture in the target firms (HealthCo 1, FoodCo). The non-financial criteria were usually linked back to the strategy. For instance, in the case of RetailCo, the criteria applied to an acquisition of web store capabilities was linked back to the capabilities RetailCo was lacking. This then linked back to the goal of developing the web store and improving its sales.

Interestingly, the same criteria did not necessarily apply to all of the acquisitions but depended on the type of the acquisition. In the case of FoodCo this difference is illustrated when the transformative and non-transformative acquisitions are compared. For the transformative cases especially the people, the target's product concept, and scalability of the offering were emphasized. In the non-transformative acquisitions that supported the "old" business, some of the criteria seemed almost opposite. The people in the target firm was not as interesting - they would be changed or at least heavily developed. In addition, the business site and lease of it were interesting. Not all of the criteria were different, however, as the target still needed to be interesting and the price needed to be right.

The summary of empirical findings for evaluation criteria can be found in Table 10. As we can see from the above, the used criteria tend to be a combination of financial and non-financial evaluation criteria, suggesting that planning on the evaluation criteria part reminds Strategic Planners or Acquisition Program Planners. Value creation was mentioned with the need for synergies, but also the fit with the company's strategy was highlighted in the findings. It seems that the assumption made from the private equity literature was supported by these findings.

Table 10 - Summary of Evaluation Criteria

Planning Characteristics	**M&A Literature**	**Private Equity Literature**	**Empirical Findings**
Evaluation Criteria	**Non-Planners**: Mainly financial **Strategic Planners:** Financial and strategic estimates in balance **Acquisition Program Planners**: Financial and strategic estimates in balance, fit within the program	Little academic literature on the topic. Acquisitions are likely required to create value.	Both financial and non-financial estimates used. Valuation and fit within the portfolio firm's strategy emphasized. Criteria can also vary within the same portfolio firm.

6.2.5 Integration Planning

During the interviews, the role of integration planning received little attention from the interviewees. In the cases that represented the frequent acquirers, the interviewees mentioned that integration was a responsibility of the portfolio companies and their internal teams. In the case of HealthCo 3, the interviewee noted that the integration was one of the competencies of HealthCo 3, that they had solid processes for it. None of the interviewees for HealthCo 1, 2, or 3 mentioned the role of integration planning in the pre-M&A phase.

In the case of FoodCo, the interviewee did emphasize the role of integration planning. It was important for them to consider how the people would fit into the company, how the teams would work together, if it is possible that the people from the acquired team start to leave, and so on. The acquired team needed to be committed to work in the new combination, and thus human resources played an important role. Before the acquisition it was important to plan how the interpersonal relationships would be managed, how the changes to the acquired people would be handled, and what would their role be in the new organization. Due to these, it was important that there was enough time to become acquainted with the potential target before the acquisition.

Thorough investigation and planning of the integration beforehand was important. One bad acquisition could have had a large impact to the success of the company by potentially affecting also the other acquisitions as well and consuming time that would have otherwise been used to something else. This is illustrated by the interviewee for FoodCo:

"*It is often like, with the integration… If you complete ten acquisitions, like in a buy-and-build case, one rotten one can contaminate the others. If you for example pay too* *much or a business risk is realized then you just withstand it. But, if the integration fails, it can cause so much headache and it is so time consuming.*" (FoodCo)

The importance of integration planning, although highlighted in the literature on M&A planning (see Table 11), seems to be out of the scope of the interests of the private equity investors as only one interviewee highlighted the importance of it. The findings described above do not seem sufficient to say much on the topic, although if one looked only at the findings it would seem most of the interviewees represent Non-Planners while one represented Strategic Planners or Acquisition Program Planners.

Table 11 - Summary of Integration Planning

Planning Characteristics	**M&A Literature**	**Private Equity Literature**	**Empirical Findings**
Integration Planning	**Non-Planners**: Little to no integration planning **Strategic Planners**: Integration planning before the M&A transaction **Acquisition Program Planners**: Planned before each M&A transaction	Not explored in the literature.	Not much discussed by the private equity investors. Some trusted it the portfolio firms. One interviewee highlighted the importance of integration planning.

6.2.6 Role of Private Equity Investor

The role the private equity investors took in the M&A activity and the planning of it, was one of the aspects with distinctive differences between the frequent acquirers and less frequent acquirers. In the less frequent acquirer cases (RetailCo & FoodCo), the private equity investors participated in the acquisition process on many levels of management. In the case of RetailCo, the private equity firm actually orchestrated the first acquisition, as it was already being planned and negotiated with the target company while the private equity firm was still negotiating the investment in RetailCo. As a result, the private equity firm had a more direct role in the M&A process than it had in some of the later acquisitions. In FoodCo, instead, the first acquisition was later on in the investment period, but the private equity investor was at least equally involved in the process. The private equity investor executed the whole acquisition by himself as there were a multitude of changes happening in the portfolio company, and the acquisition was deemed to be highly important for the company. This was typical for the private equity firm in question, considering that FoodCo was a family-owned company with very little experience in acquisitions:

"*When we go into a business, a case, that has entrepreneurial starting point, where the professional management still partly built and there has been no external investors or so, the experience with acquisitions is still low. Then we drive the acquisitions quite heavily, just like in this case. [In the beginning] we are very hands-on and execute them by ourselves."*

Even though the private equity investors of FoodCo and RetailCo actively participated and worked hands-on in the first acquisitions, they emphasized that it was not in their interest to execute all of the acquisitions by themselves. Subsequently, the acquisitions after the first ones were, even in these less frequent cases, executed mainly by the operating management. The private equity investors adapted the role of a "sparring partner". The companies had the leading responsibility, and the private equity investors supported them in the process on the boards of the companies by mainly directing the strategy and setting goals, instead of the hands-on work:

"*As we build the management and skills there, the learning is quite quick, and it gets to [to the point] where we steer the strategy. And we participate [in a more focused manner] in moments or help with more technical things, or with valuation of course. It becomes more like the work on the board of directors."* (FoodCo)

In the frequent acquirers (HealthCo 1, 2 & 3), the companies had strong internal competencies for acquisitions. The companies had, for example, M&A directors or other dedicated people, internal M&A teams or committees, as well as other supporting staff. In these cases, the portfolio companies had already established processes for the acquisitions and the companies executed the bulk of the acquisitions by themselves, especially the smaller ones. Thus, the role of the private equity investor was mainly to guide the M&A activity by improving the process and by setting goals and criteria that the targets needed to meet. In addition, at least in the case of HealthCo 1, the private equity investor tended to focus on supporting the finance side of acquisitions, ensuring that there were enough money for the acquisitions. Much of this work happened on the boards of the companies, where each acquisition had to be accepted, as described by the interviewee for HealthCo 3:

"The board decides on them in the end, and through that you can influence the valuation, the way of doing, and you can professionalize the process."

Interestingly though, even in the frequent acquirer cases, the private equity investors were especially active and involved in the M&A process in one type of acquisitions: the transformative ones. Although they emphasized that they wanted the portfolio firm to execute most of the acquisitions by themselves, as the companies were highly capable, the transformative acquisitions were too important to let the companies to handle them. In these transformative acquisitions, the private equity investors tended to be more hands on in their participation. For example, in the case of HealthCo 3, the private equity investor took actively part of the negotiations, discussing with the target company and its chairperson of the board about what the potential combination could look like. As the target company's owners would become later partial owners in HealthCo 3, the discussions were not solely focused on the planning of the acquisition. Instead, the private equity investor also spent time in these discussions selling the private equity firm as an owner and their plans for the combined company. In addition to negotiations, the private equity investors would, for example, take the lead of process, seek potential targets, coordinate the due diligence, discuss and analyze. According to the interviewee of RetailCo this was often due to the fact that especially the larger acquisitions required additional monetary investment in the company, and the private equity investors usually coordinated that.

When it comes to contributing missing skills to the portfolio companies, the private equity investors tended to consider it possible in the area of acquisitions. In the cases of frequent acquirers, there was less need for it, as the portfolio firms already had strong competences in acquisitions. Nevertheless, even then the interviewee of HealthCo 3 said that acquisitions are the one area were private equity investors could be more involved, considering that the private equity firms do acquisitions regularly to acquire the portfolio firms. In the less frequent acquirers, the transfer of knowledge and skills seemed to be more concrete. In FoodCo, for example, as the company had very little knowledge of how to execute acquisitions:

"*Right away when we start to look into the first additional acquisition, we start to teach the managers who we know will be there in future as well... Yeah, we try to pour the knowledge to them*." (FoodCo)

"*A benefit of this is that the issues that come to the board are substantially better prepared. We have gone over the certain ways of doing things, and it is risk management of course too. Then you can better trust it, you have trained others to look over certain things and the [due diligence] has been done with a certain approach, the figures have been calculated in a specific way, and so on.*" (FoodCo)

To RetailCo, the one way the private equity investor brought their knowledge to the company was by shaping the "mindset" of the portfolio company. To the private equity investor, one of the most important things they brought to the company was the way of thinking, where the goals are clear and the acquisitions are compared against these goals. The private equity investor also saw that with their influence the portfolio company has got the courage to take more risks.

By looking at the findings above, it seems that the role of the private equity investors does vary quite much, depending on the predominant conditions, especially the acquisition experience and whether the acquisition is transformative or not. The role can be to oversee acquisitions on the board of the portfolio firm or to execute the acquisitions directly, or a something between the two. The previous literature has not explored this area much (see Table 12), thus these findings add new understanding to the field.

Table 12 - Summary of Role of Private Equity Investor

Planning Characteristics	**M&A Literature**	**Private Equity Literature**	**Empirical Findings**
Role of Private Equity Investor	--	Typically active, but limited to working at board of the company. Can also execute M&As directly	Level of participation depended on the portfolio firms' M&A experience and whether the acquisition was transformative or not.

7 Discussion

The findings point to an interesting result where all of the private equity investors studied here seem to act and influence the activities of their portfolio firms in similar ways, yet there is variance within the cases. The private equity investors do not steer and participate in all of the acquisitions in a same way, but seem to adapt their behavior depending on the acquisition. This is illustrated when the findings on the six planning characteristics are considered together. The combined theoretical framework, where the empirical findings are compiled and added from the previous chapter, is shown in Table 13.

7.1 Strategic Planner or Acquisition Program Planner?

Considering the research question, the portfolio firms seem to resemble the Strategic Planners that were described in the literature review. By considering the link to strategy, it stands out from the findings that the private equity investors introduce a clear direction for the portfolio firms at the beginning of the investment, most likely due to the pressures of short investment period (see e.g. Metrick & Yasuda, 2011). The fact that the plan included, at least in the cases studied here, the acquisitions on some level suggests that the acquisitions are linked to the goals. This is similar to the behavior of Strategic Planners and Acquisition Program Planners.

Interestingly, regarding the link to strategy, the private equity investors resemble the acquisition program planners quite much. As an acquisition program is a collation of acquisitions executed to achieve a certain goal (Keil et al., 2012), one might consider the overall investment goal as the acquisition program goal. By seeing it this way, all of the acquisitions executed during the investment period would be in an acquisition program. However, the investment plans did include other means as well, such as reorganizing the company (FoodCo) or investing in services (HealthCo 1), in addition to the acquisitions. Considering those, the investment period is not solely an acquisition program, but a program combining acquisitions and other more organic methods for growth and improvement. It is an "extended" acquisition program in a sense, where acquisitions hold an important role, but are complemented with other means as well, and together they are used to achieve the same goal.

Table 13 - Updated Theoretical Framework

Planning Characteristics	**M&A Literature**	**Private Equity Literature**	**Empirical Findings**
Link to Strategy	**Non-Planners**: Little to no link to strategy **Strategic Planners:** M&A objectives are compared to the strategy **Acquisition program planners**: A collection of M&As to achieve a strategy driven goal	Portfolio firms need to have clear direction to generate returns. Seems plausible that the use of M&As is considered in this context, although there is little about the topic in literature.	Clear strategic direction for the investment period. The use of M&As linked to this through value creation plans that are made at the beginning of the investment.
M&A Motives	**Non-Planners**: Personal & Political goals **Strategic Planners**: Multitude of potential motives **Acquisition Program Planners:** Similar to Strategic Planners	Not explored in the literature. Possibly linked to the ways PE investors strive to create value.	The M&A motives can be divided into two categories, transformative and non-transformative ones, by their impact to the portfolio firm.
Timing of M&A	**Non-Planners**: Sporadic, arise from opportunities **Strategic Planners**: When the best option compared to other strategic options **Acquisition Program Planners**: Driven by the goals and pace of the program	In the first 1-3 years of the limited investment period to reap the benefits.	Acquisitions were performed throughout the investment period, also near the end of it.

Evaluation Criteria	**Non-Planners**: Mainly financial **Strategic Planners:** Financial and strategic estimates in balance **Acquisition Program Planners**: Financial and strategic estimates in balance, fit within the program	Little academic literature on the topic. Acquisitions are likely required to create value.	Both financial and non-financial estimates used. Valuation and fit within the portfolio firm's strategy emphasized. Criteria can also vary within the same portfolio firm.
Integration Planning	**Non-Planners**: Little to no integration planning **Strategic Planners**: Integration planning before the M&A transaction **Acquisition Program Planners**: Planned before each M&A transaction	Not explored in the literature.	Not much discussed by the private equity investors. Some trusted it the portfolio firms. One interviewee highlighted the importance of integration planning.
Role of Private Equity Investor	--	Typically active, but limited to working at board of the company. Can also execute M&As directly	Level of participation depended on the portfolio firms' M&A experience and whether the acquisition was transformative or not.

The popularity of acquisitions as presented, for example, by Hammer and colleagues (2012) is understandable from the comments by the interviewees in this study. The speed and convenience of acquisitions, described by the interviewees, seem to come in handy when the investment period is limited and the pressure for results is considerable. What is more, when compared against the definition of a serial acquirer (at least two to four acquisitions in three years) the frequent acquirers passed the mark with a wide margin. The frequent acquirers executed approximately 10-45 acquisitions in three years. Moreover, although the less-frequent acquirers were considered to be on the lower end on the scale when it comes to total number of acquisitions, even they surpassed the lower limit of two acquisition in three years. This suggests that the typical M&A measures and thresholds used on non-private equity backed companies might not be sufficient for the private equity portfolio firms, but should rather take into account also the brisk pace of the private equity investment periods.

The motives for the individual acquisitions seem to be quite directly linked to the goals of the investment period. If a case company wanted to become a Nordic player, it acquired a company from the Nordic Market. Alternatively, if a company wanted to expand its service offering, it would acquire companies that operated in that business area. However, the acquisitions were used for different goals within the portfolio firms, which fits Strategic Planners better than Acquisition Program Planners that tend to use acquisitions to achieve a specific goal. None of the interviewees mentioned any non-strategic goals, possibly due to the fact that private equity investors tend to also implement governance structures to their portfolio companies (see e.g. Barber & Goold, 2007, Wood & Wright, 2009).

However, the acquisitions seem to have almost a double-layer of motives - the strategic motivation, which then is motivated by the private equity investors' own goals of creating value and generating results. It could be reasoned that the acquisitions would need to fit the private equity investors' motives, in addition to the portfolio firms' motives. In order for the private equity model to work and for private equity investors to be able to create value in the portfolio firms, the motives would however need to be aligned for the most part (see e.g. Moon, 2006). Yet, it almost seems that when it comes to the acquisitions, the private equity investors' motives may be stronger than those of the portfolio firm. This is visible especially in the small non-transformative acquisitions that even the private equity investors considered less significant, more like recruitment or taking over an operation. It seems possible that these acquisitions were mainly driven by the need for growth, although to more research is needed to support this. This poises an interesting question about the nature of the private equity investor's motives. Although they might not necessarily be non-strategic or otherwise value destructive, there is a possibility that the motives are not always aligned between the private equity investors and the portfolio company. Will the motives of the private equity investor overrule in that case?

The evaluation criteria used in the cases also fit the descriptions of Strategic Planners and Acquisition Program Planners. The private equity investors brought their own criteria for the acquisitions to the portfolio firms, and the criteria were a combination of financial and non-financial criteria. Interestingly, even though the private equity investors are investors after all, the financial estimates did not overpower in the criteria. Actually, the alignment with the strategy was emphasized by multiple interviewees, in addition to the financial criteria such as valuation. This supports Moon's (2006) claim that the incentives need to be aligned so that the acquisitions are value-adding. Interestingly, the criteria did, however, vary between the acquisitions made by same portfolio firm, leading to the conclusion that the criteria was not always set in stone, but depends on the motives of the acquisition.

The timing of the acquisitions executed in the portfolio firms studied here challenges the literature reviewed in Chapter 2. According to the literature, the acquisitions are performed early on in the investment period, typically in the first 1-3 years and are likely delay the private equity firm's exit if execution was made too late (Morkötter & Wetzer, 2015, Hammer et al., 2016). In the case firms, however the situation was different - the acquisitions were executed from the very beginning to the end of the investment period. HealthCo 3 even performed its transformative acquisition about one year before the exit by the private equity firm. It seems that, although the private equity investors would prefer to do the acquisitions early on, in reality they will keep acquiring if there are acquisitions that "make sense" and fit the criteria. Contradictory to the claim of delayed exit, the private equity investors did not necessarily seem to care if, for example, integration was still in progress or not all of the benefits were yet achieved, it merely meant that the private equity investors would need to "sell" the benefits of the acquisitions to the next potential owners. Furthermore, in the case of the frequent acquirers, it was considered almost odd if the company would stop acquiring as they had acquisition-led strategies. From these insights it seems that the previous literature might not had considered different situations where the acquisitions can happen. One might even argue that, to complete all the right acquisitions in the first years, the private equity investors would need very good planning skills (and possibly good fortune) that even they might not have. By focusing only on acquiring in the first years, the private equity investors might miss opportunities that would have benefitted the portfolio firm but appeared "too late".

When it comes to the integration planning, not many interviewees mentioned it. It seems that most of the integration is left to the portfolio firms to handle, and thus is not a major part of the planning either. Only in one of the cases was the integration and people management mentioned as an important pre-M&A step. In the specific case company (FoodCo), the businesses are quite dependent on the people running them, which could explain the need to pay attention to integration issues in the planning phase as well. It is unclear, however, what could explain the lack of focus on the integration planning in the other case companies. Could it be because even though private equity firms themselves acquire portfolio firms, they do not usually integrate them into the private equity firms and thus do not pay that much attention to integration matters? Alternatively, could it be because they did not consider integration as important as the other topics in the interviews? Whatever the reason may be, this area could benefit from additional research to provide answers.

7.2 The Dynamic Role of Private Equity Investor

The private equity investors' participation in the acquisitions seems to vary depending on the acquisition. The basic level of participation in each case was the work on the board level, setting goals, guiding the work, and approving acquisitions. In a majority of the acquisitions, the private equity investors participated in a way that was similar to this. But, the private equity investors did not shy away from hands-on work either, they just did not consider it sensible in each acquisition. In the cases of frequent acquirers, these acquisitions were only the transformative ones, usually one per company. The private equity investors saw these acquisitions as highly important, and thus wanted to participate in them as well.

To the less-frequent acquirers the hands-on acquisitions were the first ones, the ones where the private equity investors could also teach the portfolio firms how to do acquisitions. Learning in acquisitions is an area of research, but the focus has been on how the companies themselves learn from the acquisitions and the mechanisms of learning (see e.g. Aktas et al., 2013). Interestingly though, in these cases, in addition to the learning the portfolio firms gained by doing the acquisitions, the private equity investors actually taught the companies by guiding the management though the acquisition process. The set-up of this is intriguing - could it be unique to the private equity-portfolio firm interaction, or does similar learning happen in other contexts as well? Overall, the transfer of skills significantly affected the portfolio firms and their ability to execute acquisitions since after the first acquisition the private equity investors were able to step back and let the companies work on the acquisitions. This suited the private equity investors well since after that they could move on to other things and enjoy the results: acquisitions made according to their preferences.

Given the above it could be concluded that the private equity investors tend to give the portfolio firms a strong direction for the investment period, and acquisitions are often a part of that direction. When acquisitions are used in the portfolio firms, they need to be value adding in the sense that they contribute to achieving the goals set by the private equity firm. To make sure that they do so, both motives and evaluation criteria are derived from the goals. The private equity investors ensure this by contributing actively in the work of the board, but also in the most important cases by participating more hands-on on the acquisitions through which they can also teach and influence the way the company executes the acquisitions. The role of the private equity investor seems to be quite dynamic when it comes to the acquisitions.

7.3 Transformative or Not?

This division between the important and less important, or as the private equity investors tended to describe them, transformative and non-transformative acquisitions, seems quite an interesting way of looking at the private equity investors influence on the portfolio firms' acquisition behavior. As described in the findings, the transformative acquisitions are a special case in acquisitions where the stakes are higher and the need to be successful is significant. The transformative acquisitions in the case firms were the ones that had a big impact on the direction of the company, for example by opening new geographical locations, adding new lines of business, or by increasing the firm's market share notably. The private equity investors were much more involved, taking the lead to ensure the success and the resources needed for the acquisition. The role of the private equity investor was significant, even if the portfolio firm had already gained plenty of acquisition experience. The non-transformative acquisitions, on the other hand, seemed less important from the perspective of the private equity investors. They were smaller and easier for the companies to complete themselves, more like the normal way of the business. Nothing that required hand-on participation, aside from the typical overseeing role, from the private equity investors. Interestingly even Zephyr did not show all of the acquisitions, further highlighting the minor role of the smallest acquistions.

This division of acquisitions into transformative and non-transformative acquisitions reminds of the logic applied by Christensen and colleagues (2011) who divided the acquisitions in two categories: the ones that improve the current business and the ones that reinvent the business model. Although, here the transformative acquisitions could be used to improve the current business and possibly only one of the acquisitions reinvented the business model in the way Christensen and colleagues (2011) meant it. However, considering who the interviewees were, there is a perspective from which the acquisitions were transformative: the private equity investors' perspective. The portfolio firms were notably different after the transformative acquisition compared to what they were like before the investment period. Some gained a significant market share and became a clear market leader (HealthCo 3), a new location that opened a new market (RetailCo), a new line of business and got a foothold in a completely new market segment (FoodCo), or whatever was the goal of the company. It shows that the acquisitions were a way for the private equity investors make an impact and create a change on a larger scale, to show that they transform the companies they invest in, thus validating their mandate as active owners.

In each case company, there was only one genuinely transformative acquisition, no matter how much the case firm had previous acquisition experience or how many acquisitions it completed during the investment period. The number of the non-transformative acquisitions, however, varied drastically case by case. The reasons for completing one transformative acquisition per case are unfortunately outside the scope of this study, although it would be interesting to know. Maybe the transformative acquisitions tell a compelling story to potential buyers at the time of the exit. Alternatively, maybe transformative acquisitions are a great way to show the firm's ability to grow and take on challenges, both to internal and external audiences?

8 Conclusions

In this chapter, the starting position of the study is revisited. The goal is to answer the research questions with the findings that arise from the study to conclude the thesis. In addition, the theoretical contribution of the study is discussed, as well as the implications the managers and practitioners can benefit from. The chapter ends with discussion on the limitations of the study and offers areas for future studies on the research topic.

8.1 Summary and Theoretical Contribution

The starting position of this study was that private equity firms are important players, although they often operating in the “shadows” behind the companies they invest in. Understanding the ways in which they operate, from the perspective of management and strategy, benefits the academic field as well as the practitioners.

Little research exists on the acquisitions performed by the portfolio firms making it an emerging area of research. The research that is already available, exists within the academic discipline of finance and tends to rely on quantitative methods. By applying qualitative methods and using the academic field of management and strategy as the complementary area of research, it is possible to help the field grow by providing insights that might be otherwise difficult to attain.

The research question of this study is “*How do the private equity investors plan the overall acquisition behavior of their portfolio firms?*”. To answer the research questions the theoretical framework is built on literature on private equity and on planning the mergers and acquisitions. As a result, six different characteristics are identified and used to describe the acquisition planning in the portfolio firms: Link to

Strategy, M&A Motives, Timing of M&A, Evaluation Criteria, Integration Planning, and Role of Private Equity Investor. See Table 2 for full presentation of the theoretical framework. This framework is applied in the data collected from the five case companies, though interviews and other data available from public sources and databases.

Overall, the study results indicate that the portfolio firms are strategic planners in their acquisitions. Private equity investors bring clear goals to the portfolio firms in the beginning of the investment, and acquisitions need to contribute to these goals. This ensured throughout the planning process, for example, the acquisition motives are linked to the overall goals, and the evaluation criteria includes the fit with the chosen strategy. The focused action in acquisitions was quite expected and fits within the assumptions laid out in the theoretical framework, thus it supports the observations made in the previous literature.

The findings, however, contradict the timing of acquisitions as presented in the earlier research: in this study, the acquisitions spanned across the investment period, and even the important, transformative, acquisitions could be completed near the end. The focus on the first years arising from the previous literature did not apply in this study. As a result, the study offers an alternative finding to the body of literature. The results on the integration planning were not conclusive, it needs more research to be understood it better. However, it seems, from the findings of this study, that private equity investors can be only a little involved in integration planning, or they can see it as highly important.

The roles of private equity investors varied depending on the acquisition experience of the portfolio firm. In those cases where the portfolio firm had little experience, the private equity investors were more involved in the beginning, teaching the managers to execute the acquisitions. After the first acquisitions, the private equity investors adopted a less hands-on approach where they would help in where needed and focus on the work on the boards of the companies. For the experienced acquirers, the private equity investors skipped the teaching part, and moved directly to the overseeing role where they participated mainly on the board. This was similar to the assumptions from previous literature, although the findings contribute new understanding as the previous literature had not offered insights on which are the cases where private equity investors are more involved and in which the private equity investors remain in the overseeing role.

One of the notable new insights generated by this study is the categorization between the acquisitions and the influence of this categorization to the participation of the private equity investors. The empirical findings illustrated how the private equity investors would view the acquisitions differently depending on whether or not the acquisitions were transformative or not. The non-transformative acquisitions were smaller in size, and some private equity investors did not even view all of them as acquisitions, but more like recruitment or as taking over an operation. These acquisitions were left to the portfolio firms to complete and manage. The motivations for at least some of the non-transformative acquisitions seemed almost be driven by private equity investors' the need for growth and a larger company size.

The transformative acquisitions were those that were perceived to have a large impact to the company, either by size or by other key attribute (e.g. it opened a new business line). Whether the acquisition was transformative or not, could be assessed from the perspective of a private equity investor: the transformative acquisitions were those that made the portfolio firm noticeably different from what it was in the beginning of the investment. In each case there were about one transformative acquisition, while the amount of non-transformative ones varied quite much in the case firms. In the transformative acquisitions, the private equity investors were quite involved in the M&A process, no matter whether or not the portfolio firm had previous acquisition experience. This was due to the importance of these kinds of acquisitions, in addition to the fact that the acquisitions often required additional funds, which the private equity investors were often responsible for arranging.

The importance of the division between the acquisitions, as observed in this study, is a finding that has not been brought up in the previous studies. There is some resemblance to some of the categorizations made in the more management and strategy-oriented research on mergers and acquisitions, especially to that by Christensen and his colleagues (2011), but even that does not consider the dynamic role of the private equity investor. The insights on the transformative and non-transformative acquisitions expand the understanding on the types of acquisitions the portfolio firms face during the investment period and thus opens up a new potential area for research on private equity. In addition, the findings allow for more detailed qualitative and quantitative studies, since the previous studies have mainly considered all of the acquisitions as similar, with a noteworthy exception of Hammer et al. (2016). In addition, by understanding that the private equity investors adapt their role depending on the nature of the acquisition is a fundamental finding of this study. It is an insight that describes the ways private equity investors operate, and the dynamic role may be present in private equity investors' other tasks as well. How dynamic is the role of private equity investor?

8.2 Managerial Implications

Although the main contributions of this study are theoretical, considering the newness of the field, there are implications for the practitioners of the field as well. For those firms facing an opportunity to work with private equity firms, the study offers insights that may be beneficial to the managers and owners of these firms. For example, understanding the ways private equity firms operate allows for better understanding on what kinds of changes may be in the future for the companies and what is their potential outlook when it comes to the acquisition activity. In addition, the study offers insights what may be expected of the managers while the company is owned by a private equity fund. For example, they can expect to learn intensely about how to acquire companies as the private equity investors use the first acquisitions to teach the management, if the company has not been an active acquirer in the past.

There are some insights arising from the study also for those companies for which the private equity firms' involvement is not as likely or in the near future. These companies might benefit from the mindset of private equity investors. One of the key ideas the private equity investors brought to their portfolio firms was the focus on clear goals and the need for the actions be strictly aligned with these goals. This highly focused way to act could bring benefits to the companies that are not portfolio firms. The use of acquisition programs is quite close to this idea, although private equity investors used "expanded" acquisition programs where also other actions were taken in addition to buying companies. Moreover, to understand their own acquisitions and the opportunities for acquisitions, the logic of transformative and non-transformative acquisitions can be transferred to non-private equity backed companies as well: is the acquisition going to transform the company significantly from what it was or is it going to be minor one in the big picture? Maybe the level of involvement of the management should also depend on the impact of the acquisition?

8.3 Limitations

This study, like many others, is not without limitations. For one, the sources for the empirical data collected for the study were limited to that provided by the private equity side interviewees, in addition to data that was available from public sources and databases. Although there is a logic for using private equity investors as the interviewees (elaborated in more detail in Chapter 5), they can only offer a one-sided view to the topics explored in this study. The experiences and opinions from the portfolio firm side, for example managers and board members, are unfortunately out of the scope of the study, although they could have offered additional insights leading to richer findings. The exclusion of the portfolio firms was a deliberate choice driven by the issues with access. As the access to the private equity investors was also somewhat limited, finding pairs of private equity investors and high-level decision-makers from the portfolio firms, in a market this small, would have likely required larger negotiations and, in the end, better personal contacts.

The selected case companies also were selected based on their activity of acquisitions. In each case, there were acquisitions during the investment period. Although this was fitting for the research topic, it is noteworthy that this selection excludes companies that could have planned to use acquisitions, but for a some reason choose not to follow the plans. The selection of the case companies also excludes those companies that never even planned to use acquisitions. Although these companies would likely not have much to say about their acquisition planning practices, there are still underlying decisions and influences that could bring more insights into the study. Thus, this study is unable to say much about the companies that never did any acquisitions and the results should not be taken as anyway representative of all the private equity portfolio firms, but as a description of these selected five.

Considering the geographical and temporal boundaries, the study is quite limited to a one place within a fairly limited time period. This may skew the insights in a sense that in another place or another time, the acquisitions could be planned differently or the private equity investors could adopt another kind of role in the acquisitions. This is good to keep in mind that while evaluating the findings of this study.

8.4 Suggestions for Future Research

This study is only a brief exploration into the acquisitions made by the portfolio firms, and as the whole area of literature is still emerging, there are naturally plenty of potential areas for future research. This section will present some of the interesting ones from the perspective of this study.

As this study focused on the planning process of the acquisitions, there are opportunities to dive into more detail about the different characteristics of panning. For example, considering Link to Strategy, the field could benefit from studies examining the first steps of planning. How are the value creation plans formulated? Alternatively, how and to what extent are the potential acquisitions predicted and planned? With the M&A Motivations it would be interesting to find out, for example, what is the division between transformative and non-transformative acquisitions on a larger scale. Do each portfolio firm have one transformative acquisition? With the Timing of the Acquisition, one especially interesting question left unanswered by this study is the stories and sales pitches the private equity investors use in the end of the investment period. How are the ongoing acquisitions included in these talks? The understanding on the Evaluation Criteria would benefit from insights on what is the spectrum of criteria used across different case firms. This study provided initial insights, but there are surely more than the ones reported here. The insights on Integration Planning from this study are still quite thin, and the field would benefit from a study dedicated to understanding the role of integration planning and the ways private equity firms perceive it.

Finally, the roles of private equity investors were found to be dynamic in this study. This seems a potential new area for future studies. How do the portfolio firms perceive the role of the private equity investors? How dynamic is the role? In acquisition activity, the role seems to be quite dynamic, but how about other areas and activities the private equity firms participate in? In addition, a study on what drives the dynamic participation could be insightful. What drives the private equity investors to be dynamic?

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